中国安芯控股有限公司
Anxin-China Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock Code: 1149

2012 年度報告 Annual Report

中國安芯 安心中國

Anxin-China, your safety is our business

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Liu Zhongkui, *(Chairman and Chief Executive Officer)*
Mr. Wang Bo *(Vice-Chairman)*
Mr. Lin Supeng
Mr. Yang Ma

Non-Executive Directors
Mr. Adiv Baruch
Mr. Wang, John Peter Ben

Independent Non-Executive Directors
Mr. Xie Baitang
Mr. Cheung Chuen
Mr. Chen Feng

BOARD COMMITTEES

Audit Committee
Mr. Cheung Chuen *(Chairman)*
Mr. Xie Baitang
Mr. Chen Feng

Remuneration Committee
Mr. Xie Baitang *(Chairman)*
Mr. Cheung Chuen
Mr. Chen Feng

Nomination Committee
Mr. Liu Zhongkui, *(Chairman)*
Mr. Xie Baitang
Mr. Chen Feng
Mr. Cheung Chuen

Corporate Governance Committee
Mr. Liu Zhongkui, *(Chairman)*
Mr. Xie Baitang
Mr. Chen Feng
Mr. Cheung Chuen

AUTHORIZED REPRESENTATIVES

Mr. Liu Zhongkui
Ms. Leung Pui Ki

COMPANY SECRETARY

Ms. Leung Pui Ki ACS, ACIS

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Minsheng Banking Corp. Ltd.
Agricultural Bank of China
China Development Bank
Baoshang Bank

AUDITOR

BDO Limited
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26/F, Tesbury Centre
28 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE

Units 2001-2005
20th Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

9/F., Building A, Future Plaza
Qiao Xiang Road
Nanshan District
Shenzhen
The PRC

COMPANY'S WEBSITE

www.anxin-china.com.hk

STOCK CODE

1149

Chairman's Statement

On behalf of the Board of Directors of Anxin-China Holdings Limited (the "Company" or "Anxin-China") and its subsidiaries (the "Group"), I am pleased to present the Group's remarkable results for the year ended 31 December 2012 to our shareholders.

The year 2012 could not be more memorable for Anxin-China. For the year ended 31 December 2012, the Group's turnover recorded a substantial increase of 42% to HK$850 million, while net profit was HK$548 million, representing a year-on-year increase of 36%.

The Board of Directors has recommended the payment of a final dividend of HK3.6 cents per share in respect of the financial year.

The impressive performance of the Group is attributable to the considerable increase of ISD surveillance points, a result of all employees' hard work. The Group is one of the earliest coal mining ISD system providers formally endorsed by the Chinese government and also the one and only ISD solutions provider capable of providing multi-industry ISD systems. In 2012, we expanded our business scope and further strengthened cooperation with local government authorities. All these undertakings serve as a continued impetus for the Group's future development. In the year 2012, the Group established 10,800 new monitoring points, now totaling 23,388 under coverage. The Group's footprint now spans 10 provinces across 34 cities/counties in China. In view of the promising performance of our ISD business, the Group is expected to enter into more framework agreements in 2013 and should therefore maintain a strong growth momentum in the future.

As a leading enterprise in the ISD industry, we adjust our development strategies in a timely fashion to keep pace with the fast-changing operating environment. It is my pleasure to share the Group's stories with all of our esteemed shareholders.

ISD BUSINESS

Favorable government policies as well as support from local governments bring new business opportunities to Anxin-China

According to "China Work Safety 12-5 Development Plan"(《安全生產「十二五」發展規劃》), the government has claimed the total investment into work safety industry will reach RMB625 billion. In addition, pursuant to the No. 114 document issued by the State Administration of Work Safety, the government released a clear timetable for constructing the emergency platform system. It requires a network of large and medium-sized enterprises at the provincial/municipal level to be established by the end of 2015. It emphasizes the construction of both hardware and software and urges the maximization of advantages of the "informationalized" emergency platform.

The business development of Anxin-China proceeds in line with the government's strategic objectives. During the year under review, Anxin-China accelerated its pace of business expansion and achieved remarkable results.

The Group successfully opened up ISD markets in Hunan Province and Hubei Province in 2012, which laid a solid foundation for the Group's market exploration in the central part of China.

Meanwhile, the Group and the Production Safety Committee Office of the government of Chongqing City (重慶市安全生產委員會辦公室) signed a frame contract, according to which approximately 800 coal mines, 2,200 non-coal mines and 500,000 other enterprises will be under surveillance by the end of 2015. Total project value is expected to reach RMB2.4 billion, among which approximately RMB700 million goes to ISD. The Group successfully extended its geographical business coverage to Chongqing. The Group's business expansion goes in line with the government's strategic objective in building a Security (Emergency) Industry Base in Western China. Furthermore, the projects make a huge contribution to the Group's profitability and lay the foundation for the Group's continuous high-speed business growth over the long run.

Grasp strategic acquisition opportunities to maintain leading position

Strategic acquisition opportunities frequently occur amid the uncertain global economic environment. In the second half of 2012, the Group announced its acquisition of Tech Praise Limited and its wholly-owned company Jilin Province YingKe Information Technology Co Ltd (Jilin Yingke). Thus Anxin-China added four more Monitoring Centers in Jilin Province, bringing the total number there to six. The acquisition will also bring to the Group a considerable amount of service fees generated from 2,566 surveillance points. In addition, Jilin Yingke's operational model for managing construction sites in Jilin Province is illuminating to Anxin-China's entire ISD segment. The successful acquisition contributed enormous profits to the Group and reinforced our undisputed leadership in the industry.

ISS ("INTELLIGENT SAFETY SYSTEMS") BUSINESS

The year 2012 was a fruitful year for the Group's ISD segment while also being a promising year for our ISS segment.

Introduce Israeli advanced technologies, explore public safety market

We strive to cooperate with high-tech corporations for a win-win result. As an increasing number of international advanced technologies have been introduced to China, we are expecting more cooperation opportunities with overseas companies. In the face of this, the Group is well-positioned to further enhance our profitability.

In April 2012, Anxin-China successfully purchased Yu Hong Investment Limited and its wholly-owned subsidiary –– Shenzhen Hawell Advanced Technology Co Ltd –– which is primarily engaged in the development, manufacture and sale of products including DVRs, NVRs, surveillance cameras and relevant accessories. In March 2012, the Group agreed to acquire the entire equity interest in Anxin Mate Holdings Limited and thus introduced its high-end video analysis technology to the China market. Pursuant to the acquisition, the Group has become the sole owner of a series of intellectual properties, including methods of indexing and searching certain content in video footage, filtering raw video information based on analyzing objects' behavior in the video, etc. The two acquisitions enable the Group to apply advanced technologies to security products and thereby further extend its business scope into the ISS segment.

In November 2012, Anxin-China launched its iVAS ("Intelligent Video Analysis System")（智能視頻分析） products in the 14th China Hi-tech Fair, making quite an eye-catching appearance in the public safety market. The launch conference drew great attention from distributors and clients. All parties were earnest in seeking further cooperation. The iVAS system provided by our Group is able to play an important role in petrochemical engineering, urban transportation, bank security, etc. With our reliable operating experience, we put in place a concrete plan to further promote the iVAS business. It is estimated that there will be one or two pilot cities by the first half of 2013. By monitoring the operation in pilot cities, we will have a clear concept of the profit model of the ISS business. In the second half of 2013, we plan to allocate more resources to the ISS business in support of its development. We estimate that the ISS business will bring considerable revenue to the Group in the near future.

Backed up by our solid foundation in the security industry, we are confident that by sharing technologies and market resources with ISD systems, the ISS business will become another strong revenue source of the Group.

CONCLUSION

The current macro backdrop is greatly beneficial to the Group's ISD and ISS business development. The government is determined to improve industrial safety and has formulated favorable policies for developing the public security industry. Supported by our business partners and shareholders, the Group is well prepared to fully exploit opportunities made available by the government's initiatives to step up industrial safety, public safety and environmental protection surveillance. We will strive to maintain our leading role in ISD industry, and we are ready to lead the technological reform in the security industry and pave the road to ISS business which boasts greater market potential.

With confidence in the market share and operating performance of our ISD business, we are positive in maintaining current gross and net profit margins in this segment. Meanwhile, we are striving to improve the competitiveness of our ISS products via upgrading the technological value added to them so that our products can outperform peers in terms of gross and net profit margins.

Last but not least, on behalf of the Board, I would like to take this opportunity to acknowledge the tremendous efforts and contributions made by our management and staff last year. I would also like to extend my heartfelt gratitude to our stakeholders and business partners for their unrelenting support and trust.

Liu Zhongkui
Chairman and Chief Executive Officer

Hong Kong, 18 March 2013

FINANCIAL HIGHLIGHTS

Year 2012 saw remarkable progress in the Group's performance.

Consolidated turnover of the Group increased by approximately 42% to HK$850 million, as compared to HK$598 million in the previous year. Profit for the year attributable to owners of the Company amounted to HK$548 million (2011: HK$404 million), representing a spectacular year-on year increase of approximately 36%.

Basic earnings per share and diluted earnings per share amounted to HK20.00 cents (2011: HK16.37 cents) and HK19.89 cents (2011: HK15.35 cents) respectively.

Net cash inflow generated from operations amounted to HK$618 million (2011: HK$336 million).

The Group did not have any significant contingent liabilities as at 31 December 2012.

MARKET REVIEW

Evolving attitude of Chinese people

Marching into 2012, the financial crisis continued to impact the global economic system. The EU faced daunting challenges as economic growth in many corners of the world ground to a virtual standstill. Fortunately, thanks in large part to the stimulus package introduced by the PRC central government, China's economy braved through the crisis and became a much welcomed bright spot in the global economy. In 2012, China's GDP grew 7.8%. The growth in China's economy has increased the per capita income and at the same time, accelerated the historic urbanization process. As the citizenry's income and quality of life improves, living styles also are changing. Therefore, the general public began paying more attention to problems in daily life, such as food quality, work safety, public security, environmental pollution and social stability.

12th Five-Year Plan and No.114 document boosts ISD business development

Under the 12th Five-Year Plan, the central government emphasized its determination to strengthen industrial safety supervision and improve the country's emergency rescue capability. The State Administration of Work Safety (SAWS) stressed in the No.114 document issued in September 2012 that by end-2015, SAWS's target is to complete the Monitoring System for China's large and medium-sized firms at both the provincial and city levels. In addition, the "China Work Safety 12-5 Plan" was officially launched in October 2011. SAWS's chief engineer, Mr. Huang Yi, pointed out during a public briefing that within the 12-5 Plan, at least RMB625 billion will be invested into Work Safety area.

"Smart Cities" and "Beautiful China" trends are beneficial to ISS business development

Currently, China is undergoing a transformational campaign from "Safe Cities" to "Smart Cities". Initial development of the existing public safety system cannot satisfy the comprehensive, dynamic and increasingly complex needs of ever-evolving urban safety and monitoring systems. The new generation of highly intelligent public safety systems has the capability to assist authorities in completing their tasks successfully and effectively. The Group leveraged on two acquisitions in 2012 –– Yu Hong Group and Anxin Mate Holdings Ltd –– to further facilitate the strategy of implementing a "Smart Cities" system (which we call "ISS"), alongside our goal of firmly establishing our Group's brand within the Intelligent Video Analysis and Smart Video Monitoring industries.

The PRC government's macro strategy is beneficial to the Group's development. We believe that based on the current ISD business penetration rate and competition status, the Group's ISD business will continue to maintain its current gross profit margins and net profit margins. At the same time, value-added skills obtained through the upgrading of ISS products will allow us to increase these products' market competitiveness, and realize higher gross and net profit margins compared to our peers.

With the PRC government's growing emphasis on work safety and public safety, leveraging on the Group's proprietary ISD business and future ISS business which may bring huge returns, The Group is confident to say, "Anxin-China, your safety is our business".

BUSINESS REVIEW – BUSINESS SEGMENTS

The Group positions itself as the leading industrial and public safety integrated solutions provider & operator in China. Our business can be classified into two categories: i) ISD (Intelligent Surveillance, Disaster alert and Rescue Coordination Systems) and ii) ISS (Intelligent Safety System).

ISD business

ISD stands for "Intelligent Surveillance, Disaster Alert and Rescue Coordination." ISD systems are unique in China. They help realize government efforts to make industrial production safer and help minimize or eliminate workplace hazards in industries involving chemicals, inflammables and explosive materials, along with toxic substances, dangerous mining venues and other higher-risk undertakings. All these can be coordinated via real-time remote monitoring, emergency rescue coordination and emergency decision support systems. (Please refer to Diagram 1 for a pictorial description of a typical ISD System). ISD system consolidates the self-installed sensor data from majority of enterprises, tracks origins of peril and analyzes data then sends the results to the government monitoring centers. This enables the government to manage real-time, efficient monitoring of origins of peril with in its jurisdiction, and will thus reduce the possibility of accidents occurring at enterprises/higher risk worksites. In addition, the system also stores government emergency plans and is equipped with complete command and control systems to prompt monitoring centers to execute efficient emergency rescue work in case of sudden incidents. This will minimize the casualty and damages otherwise likely to arise from such incidents.

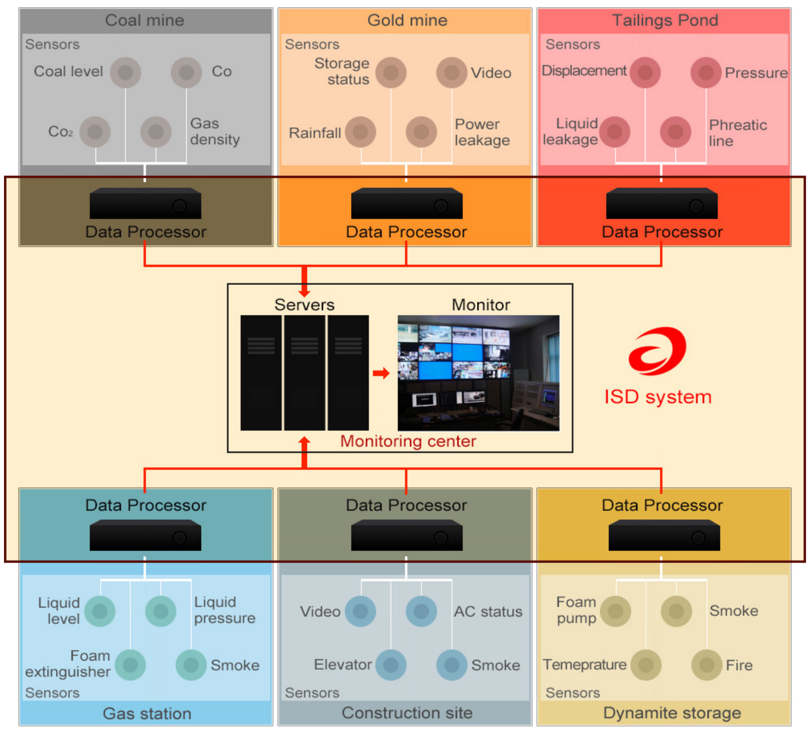


Diagram 1: Typical ISD System

State Administration of Work Safety highlighted 31 categories in the National Census of Major Hazards and Anxin-China's ISD system can be utilized in 11 different categories including coal mines, non-coal underground mines, open-pit mines, construction sites, storage areas, petrol stations, storage tank areas, LPG stations, tailing ponds, dangerous goods operation facilities and terminals for hazmats (Please refer to Diagram 2 for 31 types of Origins of Peril).

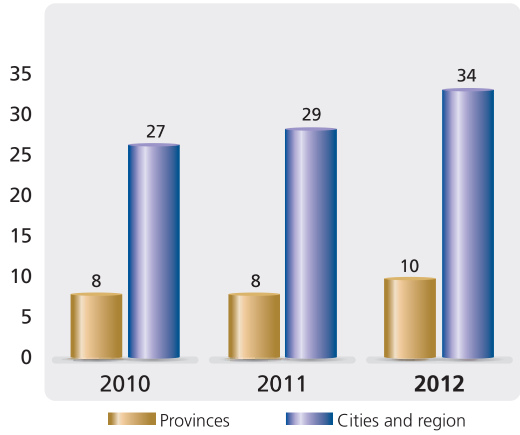
Diagram 2: 31 types of Origins of Peril

Note: Those marked in yellow represent the types that Anxin-China had covered as at 31 December 2012.

For the 12 months under review, the Group's ISD business segment continued to achieve impressive results.

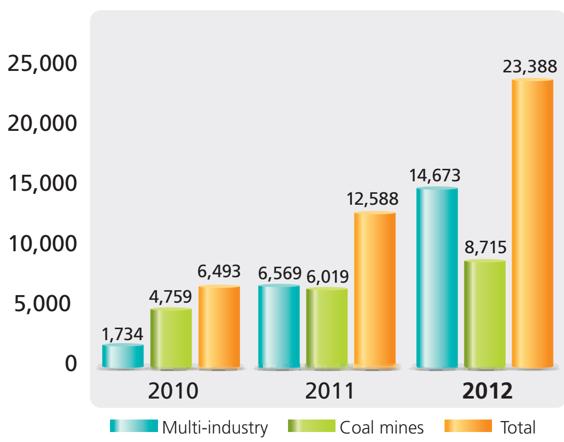
The Group's ISD business segment added seven new monitoring centers in Hunan, Jilin, Hubei and Yunnan provinces during the year. There was an increase of 10,800 monitoring sites in existing and newly tapped monitoring cities. As of 31 December 2012, the Group had established 36 ISD monitoring centers and 23,388 surveillance points across 10 provinces and 34 cities and counties.

Geographical coverage



Monitoring centers

Surveillance points



In May 2012, the Group entered into a framework agreement with the Production Safety Committee Office of the government of Chongqing City, China, in which the Company agreed to establish ISD systems in Chongqing City. Pursuant to the agreement, the Company will establish a monitoring center for the purpose of monitoring the industrial safety of industrial enterprises in Chongqing City in accordance with the requirements of the Production Safety Committee Office of the government of Chongqing City, China. The entire project is expected to be completed by 31 December 2015.

ISS Business Segment

Intelligent Safety System or ISS refers to an intelligent safety system that differs from traditional safety systems. Traditional safety systems are passive and can only collect and disseminate data over to staffs. This results in staffs having to face a copious volume of redundant and invalid information in their daily work. Anxin-China's intelligent safety system can filter a large number of redundant and invalid information according to one's needs and pass only meaningful information to staff. It greatly improves work efficiency of safety systems. At the same time, according to different levels of intelligence required, ISS systems can also predict in advance if an event is likely to transpire. This can effectively control the public space and workplace hazards to ensure safety for all. ISS systems include intelligent software, hardware and other related equipment such as smart cameras, smart DVRs/NVRs, smart sensors, intelligent video analysis systems, etc.

Traditional public safety equipment has been widely used in many areas such as traffic management, financial security, property management and safe city settings. However, the huge amount of data collected also restricts these devices' ability to perform defensive duties effectively and act more as means of simply providing evidence for management after incidents take place. As a result, the demand for ISS technology is growing rapidly and we believe that in the near future, ISS will be a comprehensive alternative to existing traditional safety devices and become an effective tool in urban management.

ISS will be one of the two key businesses to the Group in the future

The Group completed in 2012 the acquisition of Yu Hong Investments Ltd and its wholly-owned subsidiary Shenzhen Hawell Advanced Technology Co., Ltd ("Shenzhen Hawell"), Shenzhen Hawell is principally engaged in the design, development, production and distribution of security and protection products such as DVRs, NVRs, surveillance cameras and relevant accessories for monitoring systems.

In March 2012, the Group – together with Mango D.S.P. Ltd ("Mango"), Infinity Group and Mate Intelligent Video 2009 Ltd – entered into a Share Purchase and Services Agreement to acquire the entire stake in target company Anxin Mate Holdings Ltd ("Anxin Mate") which owns advanced intelligent video analysis algorithms and software. Their algorithm capability has a stellar reputation in the industry.

The Group believes that both strategic acquisitions can be integrated together, resulting in significant synergies. To date, the Group has several high-technology capabilities including top-notch face recognition technology and intelligent scenario analysis algorithm, which can be used in Shenzhen Hawell's CCTV systems to create a new generation of intelligent safety systems. This is all part of Anxin-China's strategic planning.

For the 12 months under review, the Group has worked hard to digest and absorb the synergistic effects of both acquisitions. In November 2012, at the China Hi-Tech Fair, the Group demonstrated world class intelligent video analysis technology and has initiated discussions and trial tests with several city-level governments. The trial results have been satisfactory to date. The Group anticipates that by the first half of 2013, the trial works for ISS business will have been completed and management can explore refining its overall business model. The second half may see the Group promoting ISS business on a full-scale basis and as a result, the performance in the second half of this year may reflect these efforts.

BUSINESS REVIEW – RESEARCH & PRODUCTS

During the year under review, the Group was determined to enhance its technical content and specialized in the development of new products. In order to enhance the Group's competitiveness in the industry, 9% of the Group's annual revenue has been set aside to invest in research and development.

In 2012, the Group successfully developed a new generation of data processors and continues to devote energy to previous ISD software to improve the efficiency levels of monitoring. We aggressively promote upgraded versions to existing customers and have so far obtained positive feedback. At the same time, the Group is also managing technical preparations of real-time monitoring systems for the future development of the environmental protection industry. It is also proactively conducting a feasibility study on monitoring software embedded on mobile devices.

Currently, the Group's R & D department has a total of more than 80 professionals. During the year under review, the Group –– following the acquisition of Anxin Mate –– obtained advanced and stable video analysis capabilities. At the same time, the Group increased its intellectual property arsenal, including "Method of generating an index of the text of a video image sequence"; "Method of selecting key-frames from a video sequence". In addition, the Group also obtained the pending patent of the approach and system to pair objects or people in two or more images, algorithms and software for both remote device and large server arrays, and many other software and know-hows.

As at December 31, 2012, the Group had accumulated 14 patents with two more patents pending, 35 software copyrights and 37 software products registered.

The Group believes that these patents will assist us to build up a reserve of high-tech products to meet huge ISD market demand in industrial safety and environmental monitoring, while making full preparations to penetrate the borderless ISS systems market in regarding public safety.

FINANCIAL REVIEW AND ANALYSIS

Consolidated Turnover and Gross Profit

For the year ended 31 December 2012, the Group's consolidated turnover was approximately HK$849,730,000 (2011: HK$598,172,000), an increase of approximately 42%. The gross profit within the year was HK$716,955,000. (2011: HK$536,483,000), an increase of approximately 34%. The increase in the consolidated turnover and gross profit was due primarily to the jump in income from the increase in surveillance points under coverage.

Other Revenue

Other revenue increased from HK$48,368,000 in FY2011 to HK$97,278,000 in FY2012. This refers mainly to refund of value-added tax, interest income from bank deposit, subsidy income etc. During the year under review, the value of the refund of value-added tax was approximately HK$84,876,000 (2011: HK$41,723,000).

Other Gains and Losses

Other gains and losses refer to the compensation gains arising from acquisition of Yu Hong Group, reversal of impairment loss on trade receivables, fair value changes on contingent consideration shares etc. During the year under review, the other gains and losses amounted to a gain of HK$46,049,000 (2011: Loss of HK$22,315,000). The change during the year under review period, was due mainly to the compensation gain arising from the acquisition of Yu Hong Group, which amounted to HK$61,490,000 and loss on the fair value change of contingent consideration shares from the acquisition of Tech Praise Group, which amounted to HK$33,209,000.

Selling and Distribution Costs

Selling and distribution costs increased from HK$65,452,000 in FY2011 to HK$116,814,000 in FY2012. The increase is due primarily to the Group's distribution partners share options being expensed over the vesting period and the first tranche equity settled share-based payment to the Group's consulting company (Infinity Group). The expenses relating to the share options in 2012 amounted to HK$61,112,000, compared to HK$25,289,000 in 2011. The first tranche equity settled share-based payment in relation to Service Agreement signed on 17 March 2012 amounted to HK$28,795,000 (2011: Nil).

Administrative Expenses

For the year ended 31 December 2012, the Group's general and administrative expenses were approximately HK$45,041,000 (2011: HK$31,028,000), accounting for 5.30% of the Group's turnover (2011: 5.19%).

This refers mainly to the share option expenses arising from the staff share-based remuneration, staff salaries, office rental etc. The share option expenses in FY2012 amounted to approximately HK$9,280,000 (FY2011: Nil).

Income Tax Expense

The Group and its group entities established in the British Virgin Islands are tax-exempt.

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for subsidiaries incorporated in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2011: Nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25% from 1 January 2008 onwards.

Pursuant to an approval document issued by the Tax Bureau of Shenzhen, Guangdong Province, the Company's subsidiaries, Shenzhen Anxin Digital Development Co., Limited ("Shenzhen Anxin") and Shenzhen Hawell Advanced Technology Co., Ltd. ("Shenzhen Hawell") qualified as high-tech enterprises and are entitled to a preferential enterprise income tax rate of 15% for the three years from 2011 to 2013 and from 2012 to 2014, respectively.

Pursuant to an approval document issued by the Tax Bureau of Hongze, Jiangsu Province, the Company's subsidiary, Jiangsu Hongxin Intelligence Technology Co., Limited ("Jiangsu Hongxin") qualified as a software-producing enterprise and is entitled to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014.

Pursuant to an approval document issued by the Tax Bureau of Yanji, Jilin Province, the Company's subsidiary, Jilin Province Yingke Information Technology Co., Ltd. ("Jilin Yingke") qualified as a software-producing enterprise and is entitled to EIT exemption for the years 2011 and 2012 and a 50% reduction in EIT for the years from 2013 to 2015.

Other subsidiaries, which were established and operate in the PRC, are subject to EIT at a standard rate of 25% (2011: 25%).

Profit for the year attributable to owners of the Company

Profit for the year attributable to owners of the Company for the current financial year was approximately HK$547,872,000 (2011: HK$404,220,000), an increase of approximately 36%.

The driving force behind the increase in income came from revenue, other incomes and other gains.

Earnings Per Share

The basic and diluted earnings per share for the year was HK20 cents (2011: HK16.37 cents) and HK19.89 cents (2011: HK15.35 cents) respectively.

Liquidity and Financial Resources and Gearing ratio

The Group working capital requirement was funded primarily by cashflow and cash from operating activities. As at 31 December 2012, the Group had cash and cash equivalents amounting to approximately HK$1,580,697,000 (2011: HK$1,077,795,000).

For the year ended 31 December 2012, the net cash inflow from operating activities amounted to approximately HK$618,399,000 (2011: HK$336,238,000). The increase was due to the increase in turnover.

As at 31 December 2012, the Group does not have any bank borrowing (2011: Nil). Up to 31 December 2012, the Group's gearing ratio (total liabilities/total assets) is 16.5% (2011: 3%), and the current ratio stands at 4x (2011: 21x). The raise of gearing ratio and the drop in current ratio was due to the increase in financial liabilities under the current liabilities. As part of the consideration for the acquisition of Tech Praise Group, the remaining not issued were re-measured to fair value and classified as financial liabilities in the consolidated statement of financial position. This increase the financial liabilities to HK$270,142,000 (2011: Nil). The Group maintains a net cash position, which reflects its stable financial position to cater to its future expansion.

Share Capital

During the year under review, shares were issued for acquisition of subsidiaries together with exercise of warrants and share options.

Employee Information

As at 31 December 2012, the Group employed a total of 516 employees (2011: 201). The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement. During the year, the employment cost (including Directors' emoluments) amounted to approximately HK$33,489,000 (2011: HK$14,430,000).

Share Option Scheme

The Company adopted a share option scheme as an incentive to selected participants. During the year, 158,820,000 share options have been granted, 37,000,000 options have been exercised, no option has been cancelled or lapsed during the year. There are 158,820,000 options outstanding under the Scheme.

Charge on Group Assets

As at 31 December 2012, the Group did not have any charges on its assets.

Expected Sources of Funding

In view of the market situation, the management may consider raising capital for funding new investments while reserving internal financial resources to support its core business.

Capital Commitments

The Group did not have any capital commitments that were contracted or authorized for as at 31 December 2012.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2012.

Foreign exchange risk

The Group's major operating subsidiaries carried out its activities in China and transactions were settled in RMB. These subsidiaries' assets and liabilities as well as its transactions from operating activities are denominated in RMB. As a result, the management believes it does not have foreign exchange risk which will materially affect its business. The Group does not use any long term contract or currency swap to hedge the foreign exchange risk. However, the management will continue to monitor the foreign currency risk and take appropriate and cautious measures.

Significant Investments and Acquisitions

On 14 November 2011, the Group entered an agreement for the acquisition of Yu Hong Holdings Limited and its subsidiaries (collectively referred to "Yu Hong Group") at an aggregate consideration of HK$315,000,000, together with the loan of HK$13,005,000 due to its shareholder. Among which, HK$126,000,000 shall be satisfied by cash and the balance of HK$189,000,000 by way of promissory note issued by the Company. After two supplemental agreements, the remaining cash payment and promissory note are subject to Yu Hong Group's profit guarantee for the year ended 31 December 2012 of HK$90,000,000. As at 31 December 2012, Yu Hong Group financial performance did not meet the above profit guarantee. As a result, HK$101,490,000 was deducted from the promissory note.

On 17 March 2012, the Group signed a Share Purchase and Service Agreement (Collectively "Agreement"). According to the Agreement, the Group will become the sole owner of a series of intellectual property and Infinity Group will assist the Group in expanding and developing markets for ISD platforms in three cities in the PRC within three years from the completion date of the acquisition of the series of intellectual property. The aggregate consideration of the Agreement is US$29,841,000 (equivalent to HK$231,927,000). The consideration of the Share Purchase in relation to the series of intellectual property is US$14,841,000 (equivalent to HK$115,346,000), of which (i) US$7,341,000 (equivalent to HK$57,055,000) shall be satisfied by cash; and (ii) US$7,500,000 (equivalent to HK$58,291,000) shall be satisfied by the Company's allotment and issuance of a Consideration Shares of 32,353,756. The consideration of the Services is US$15,000,000 (equivalent to HK$116,581,000) which shall be satisfied by the Company's allotment and issuance of 3 Tranches Consideration Shares with 21,569,171 shares each. The consideration of the share be allotted and issued to Infinity Group within three years after completion upon the happening of milestones of the Services. As at 31 December 2012, the Group has issued 32,353,756 new shares and paid US$7,341,000 (equivalent to HK$57,055,000) in cash to the Vendor for the acquisition of the series of intellectual property.

On 6 July 2012, the Group agreed to acquire the entire equity interest of Tech Praise Limited and its subsidiaries (collectively referred to "Tech Praise Group"), for a consideration of HK$300,000,000, together with the loan amounting to HK$6,380,000 due from Tech Praise Limited to its shareholder. The consideration will be satisfied by the issuance of shares at HK$1.477 to the seller with the maximum issuance of 203,114,421 shares. As at 31 December 2012, the Group has already issued 60,934,326 shares to the seller.

Prospects

European debt crisis continued as the economic growth in developed countries stagnated, adding more uncertainty to the global economy. China's 2012 GDP growth was 7.8%, slightly lower than in 2011. The Group remains concerned about the challenges of the global economy. Hence, we remain prudent in planning business development. But we also believe that China's economic fundamentals remain very strong, and state policy support in the field of work safety and continued investment in the field of public safety with supporting policies, gave us reasons to believe in the bright prospects of the Group.

We believe that, in view of the market penetration of the current ISD business and competition status, the Group's ISD business segment will continue to maintain its existing gross profit margin and net profit margin. At the same time, value-added skills obtained through the upgrading of ISS products will allow us to increase these products' market competitiveness, and realize higher gross and net profit margins compared to our peers. Embracing the mission of "maximizing shareholder value", we strive to continue to maintain a stable dividend policy while pursuing stable gross profit and net profit.

Brand Building

The Group position itself as the leading industrial and public safety integrated solution provider & operator in China. With almost unlimited space to grow, we believe our market share of ISD business will maintain a steady increase in the near future. We have already built up a reputation among the authorities responsible for work safety, and we will never rest on its laurels.

Research and Development for New Products

The Group is actively doing research and development for wide-angle intelligent CCTV cameras with intelligent facial recognition and scenario analysis capabilities as well as internet of things application. Through the development and integration of the above-mentioned technologies, the Group's related products can automatically collect, analyze and deal with public safety-related data and information. At the same time, the Group also actively perfects the existing ISD platform, to further improve the efficiency of the existing system and its completeness. This can assist the government in the field of public safety and environmental protection to achieve the targets of real-time monitoring, early warning provision and rescue coordination. The Group believes that the continuous product research and development is the fundamental basis for us to build up a reserve of high-tech products, in order to meet huge ISD market demand in industrial safety and environmental monitoring, while making full preparations to penetrate the borderless ISS systems market in regarding public safety.

Strategic Acquisition

The Group completed three acquisitions in 2012. Two of which enabled the Group to take a great step forward towards the future intelligent safety system industry. We will continue to explore new acquisitions, investment targets, in order to enhance the Group's technology and strength.

DIRECTORS

Executive Directors

Mr. Liu Zhongkui (劉中奎), aged 31, is the Chairman and Chief Executive Officer of the Group. He graduated from Nanjing University of Technology (南京工業大學) in 2005. Mr. Liu joined the Group in 2004. From 2004 to 2007, he worked in the research and development department and was responsible for the research and development of real-time system data collection program and security surveillance system center program. From 2007 to 2009, he worked in the market engineering department and was responsible for the implementation of engineering projects and led the team towards the successfully completion of various projects. Since 2009, Mr. Liu assumed the offices as the manager of the research and development department and chief operating officer of Shenzhen Anxin and Jiangsu Hongxin successively. He became the Director of the Group in June 2011.

Mr. Wang Bo (王波), aged 41, is the vice-chairman and an Executive Director of the Group. Mr. Wang graduated from Tsinghua University (清華大學) with EMBA in 2011. In July 2012, Mr. Wang finished his studying in Advanced Seminar in Financial Investment of the Graduate School at Shenzhen, Tsinghua University (清華大學深圳研究生院金融投資高級研修班). From 1993 to 2003, Mr. Wang held several senior positions from Technician to Manager in several well known companies, which brought him rich experience in the design, development, production and distribution of security and protection products. Mr. Wang is currently a general manager of Shenzhen Hawell Advanced Technology Co., Ltd (深圳豪威未來科技有限公司) since 2003. Mr. Wang was appointed as Vice President of Shenzhen Safety & Defence Industry Association (深圳市安全防範行業協會副會長) in 2008, and awarded as the Top Ten Elite of Corporate Culture Building (十大企業文化建設傑出人物) by the Security and Protection Market Journal (安防市場報) in 2011. He became the Director of the Group in June 2012.

Mr. Yang Ma (楊馬), aged 35, is an Executive Director of the Group. Mr. Yang is currently the vice president of the market engineering department of the Group and is responsible for the maintenance of the developed markets and project management. Mr. Yang graduated from Huaian Institute of Technology (淮安工學院) in 2000. Mr. Yang once worked in a cement plant in Hongze Preferecture of Jiangsu Province (江蘇省洪澤縣水泥廠) and had very extensive experience in project development and market maintenance. He joined the Group in 2003 and became the Director of the Group in June 2010.

Mr. Lin Supeng（林蘇鵬）, aged 31, is an Executive Director of the Group. Mr. Lin is currently the vice president of the strategy planning department and is responsible for the technical development and strategy planning of relevant works to provide suggestions for the long-term development of the Group. He holds a Bachelor Degree of Science in Mathematics and Applied Mathematics (Information and Computational Science)（數學與應用數學（信息與計算科學））from Shenzhen University（深圳大學）and a Master Degree of Information Technology from The University of Queensland, Australia. Mr. Lin had once worked in the research and development department of the Group and has extensive experience in project management on software development. He could clearly position the strategic development of the Group with the direction of this kind of experience. He joined the Group in May 2009 and became the Director of the Group in February 2010.

Non-executive Directors

Mr. Adiv Baruch, aged 51, has a B.Sc. in Information Systems and Industrial Engineering from the Technion – Israel Institute of Technology. Mr. Baruch is acting as the managing partner of SBA capital since inception. Mr. Baruch serves as a director in several public and private companies, including Bank of Jerusalem and Tapuz, an Israeli online community and mobile portal, and as Chairman of Pilat Group Ltd, a leading HR software solutions company, all of which are public traded companies listed on the Tel Aviv Stock Exchange, and the Chairman of Win Global Markets, publicly traded in the US (OTC). He has also served as founder and executive or director for several information technology companies and Internet start-ups. Mr. Baruch has also served as a director of Maayan ventures, a leading Technology Incubation platform. Since 2007 until November 2011, he has acted as a venture partner with Infinity I-China equity investment company that has contributing him an extensive experience and knowledge working in China. He is expertise in the Telecom and High-tech industry. He is well respected in the Israeli High-tech market as well as the international markets with his strategic capabilities and marketing vision. Mr. Baruch is actively involved as the Chairman of the Hi-Tech and Telecom Division at the Israel Export and International Cooperation Institute ("IEICI"), and he is a board member and an audit committee member of the IEICI. Mr. Baruch has lead global strategies to many companies in the technology related sector and has executed many successful mergers and acquisitions. Mr. Baruch was appointed as non-executive Director in September 2012.

Mr. Wang, John Peter Ben（王志浩）, aged 53, is currently Chairman and executive director of Summit Ascent Holdings Limited, and holds non-executive directorships in Melco Crown Entertainment Limited and China Precious Metal Resources Holdings Co Ltd, all of which are companies listed on the Main Board of the Stock Exchange. He is also a non-executive director of MelcoLot Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He was a non-executive director of Canival Group International Holdings Limited (formerly known as Oriental Ginza Holdings Limited), which is listed on the Main Board of the Stock Exchange, until 1 March 2012. Between 2005 and 2009, Mr. Wang was the chief financial officer of Melco International Development Limited, a company listed on the Main Board of the Stock Exchange. Mr. Wang has over 20 years of experience in the financial and investment banking industry and had previously worked for Deutsche Bank (HK), CLSA (HK), Bear Stearns Asia Limited (HK), Barclays (Singapore), S.G. Warburgs & Co. (London), Salomon Brothers (London), the London Stock Exchange, and Deloitte Haskins & Sells (London). Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985. Mr. Wang was appointed as non-executive Director in September 2012.

Independent Non-executive Directors

Mr. Cheung Chuen（張全）, aged 39, graduated from the accounting department of Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in 1999 and obtained a Master degree in accounting from Hong Kong Polytechnic University in 2004. Mr. Cheung is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He has more than 10 years' experience in accounting and auditing and is currently qualified to practise as a certified public accountant in the US and Hong Kong. Mr. Cheung joined the Group as independent non-executive director in September 2004. He is also an independent non-executive director of Kingwell Group Limited (stock code: 1195), a listed company in Hong Kong and an executive director of China High Precision Automation Group Limited (stock code: 591), a listed company in Hong Kong. Mr. Cheung was appointed as independent non-executive Director in September 2004.

Mr. Xie Baitang（謝柏堂）, aged 61, completed his study of 自動控制專業 (Specialty in Automatic Control) in Nanjing Aeronautical Institute 中華人民共和國南京航空學院 (currently known as Nanjing University of Aeronautics and Astronautics 南京航空航天大學), the People's Republic of China, in 1975 and is a senior economist (research fellow level). He started his career in the aeronautics and astronautics industry in 1975 and served various positions, including Head of Asset Operations, Deputy Head and Secretary General of Supervisory Committee of China Aerospace Science and Industry Corporation（中國航天科工集團公司）. Since December 2001, Mr. Xie has been serving as a director of Guizhou Space Appliance Company Limited（貴州航天電器股份有限公司）, a company listed on the Shenzhen Stock Exchange, and was also the chairman of Guizhou Space Appliance Company Limited from December 2001 to April 2004. Since December 2006, he has been serving as a director of Aerospace Communications Holdings Company Limited（航天通信控股集團股份有限公司）, a company listed on the Shanghai Stock Exchange. From February 2007 to January 2009, Mr. Xie served as the chairman of Aerospace Hi-Tech Holding Group Company Limited（航天科技控股集團股份有限公司）, a company listed on the Shenzhen Stock Exchange. Mr. Xie was appointed as independent non-executive Director in June 2011.

Mr. Chen Feng（陳楓）, aged 50, graduated from Hainan School of Agricultural Machinery（海南農機學校）in 1983. Mr. Chen completed his part-time study in Mathematic department of Shenzhen Education School（深圳市教育學院）and the CEO Training Program of Party School of CPC（中央黨校大型企業董事長培訓班）in 1985 and 1997 respectively. From 1983 to 1999, Mr. Chen held several senior positions from Technician to Deputy General Manager and President in Baoan Chicken Rising Company（深圳市寶安養雞公司）(predecessor company of Shenzhen Kondarl (Group) Co., Ltd. 深圳市康達爾（集團）股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code 48). In 1999, Mr. Chen was appointed as the Secretary of the Party Committee（黨委書記）, the President of Shenzhen City Qianwan Power Development Co., Ltd.（深圳市前灣電力發展有限公司）and the vice president of Shenzhen City Guangqian Power Co., Ltd.（深圳市廣前電力有限公司）respectively. Mr. Chen is currently a president of Huijiang Investment Holding Limited（慧江投資集團控股有限公司）since 2004. Mr. Chen is currently elected as a vice president of China Association of small and medium enterprises（中國中小企業協會）and the president of Shenzhen small and medium enterprises credit association（深圳市中小企業信用互助協會）. Mr. Chen was appointed as independent non-executive Director in January 2012.

SENIOR MANAGEMENT

Mr. Li He（李赫）, aged 30, is currently the Senior Vice President and Senior Engineer of the Group. Mr. Li graduated from University of Southern California in United States and holds a Master of Science degree in Electrical Engineering. He also holds a Bachelor of Engineering degree in Electronic Device & Information Technology from Zhejiang University in Hangzhou, China. Mr. Li is an engineer and management with nearly a decade's experience. He has been working with Ktech Telecommunication Co., Ltd in California, responsible for SoC design and FPGA design for digital signal processing. He worked for ZTE from 2010 to 2012 as Product Manager of ZTE Micro-Electronics Institution. During his time in ZTE, Mr. Li was responsible for both hardware/software R&D and marketing strategy development for Micro-Electronics Institution's video surveillance products. Joined the Group in 2012, he is now head of R&D center of the Group. Mr. Li is also responsible for introducing the Group to investors, maintaining and promoting investor relations.

Mr. Dai Zhaoming（戴兆明）, aged 36, is currently Project Manager and senior engineer of the Group. He graduated from Hohai University in 2002 specialized in Computer Science and Technology and is now pursuing a Master Degree in Southeast University majoring in software engineering. Mr. Dai conducted the research and application development of wireless sensor networks (WSN) and the research of geographic information systems (GIS) and cloud computing platform for a long period of time. He once participated in or independently completed the design and development of GIS sub-system of GPS vehicle tracking and dispatching system project, coal mine gas digitalization remote monitoring system, coal mine GIS map editing software, coal mine GIS surveillance center software, embedded wireless intelligent video surveillance system, automobile identity card system, cloud computing service platform of Internet-of-Autos. He participated in the research and development of a number of patents, products and software copyright of the Group and is now responsible for the research and development of new projects and technology management.

Mr. Li Zhanbin (李戰斌), aged 30, is currently Project Manager and senior engineer of the Group. He obtained a Bachelor Degree in measuring and control technology and instruments from Xi'an Technological University (西安工業大學) in 2006 and a Master Degree in optical engineering from Xi'an Technological University in 2009. Mr. Li had studied and worked in the research and development institutes such as China Aviation Numeration Research Institute (中航計算所) and Shanghai Micro Electronics Equipment (上海微電子裝備) successively, and has extensive experience in the design of intelligent instrument and equipment and software products. He once participated in the system research and development works like the design of intelligent traffic electronic police system based on video processing technology, testing and tuning software for high-end object projection lens scanning lithography machine lighting and exposure system, object projection lens scanning lithography machine wave aberration detecting and rectifying system, and was in charge of the research and development of outdoor scene intelligent recognition system, school bus intelligent warning monitoring system and so on. In recent years, he had all along been responsible for the software and hardware system design and project management of new products, especially carrying out abundant of works in terms of imaging system and algorithm design. He successfully developed an embedded outdoor intelligent monitoring and recognition system with recognition accuracy and speed reaching international advanced level.

Mr. Yao Xuesheng (姚學升), aged 39, is currently Project Manager and senior engineer of the Group. He obtained a Bachelor Degree in Mechanical Production from Henan University of Science and Technology (河南科技大學) in 1996 and a Master Degree in mechatronic engineering majoring in the research and application of parallel robot kinematics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in 2001. In 1996, he worked in Luoyang Hussmann Refrigeration Company Limited (洛陽哈斯曼製冷有限公司) and was engaged in numerical control programming, tooling mold design and so on. In 2001, he worked in Huawei Technologies Company Limited (華為技術有限公司), and received professional CMM training and software development training of the entire process, engaged in the software testing and market maintenance of optical transmission network management and intelligent network projects and so on successively. He once worked as a testing officer of comprehensive network management and was responsible for the system testing of the whole project. He promoted the application of automation testing in the testing team. He joined the Group in 2010, responsible for the development and promotion of relevant projects and is now responsible for the marketing and project management of human protection and emergency rescue projects.

Ms. Yang Shuyan (楊淑顏), aged 33, a certified public accountant in the PRC, is currently the Financial Controller of the Group. Ms. Yang graduated from the South China University of Technology with a dual bachelor's degree in E-commerce and Technical English. She had worked in an internationally renowned accounting firm and has over eight years of experience in auditing and finance. Ms. Yang joined the Group in 2011.

Ms. Leung Pui Ki (梁珮琪) is the company secretary and authorised representative of the Group from 13 July 2011. Miss Leung graduated from the University of Hertfordshire in the United Kingdom with a Bachelor degree in Business Administration. She is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries (HKICS). Miss Leung has over 15 years experience in the Company Secretarial field. She was a company secretary of HC International, Inc., a company listed on the Growth Enterprise Market of the Stock Exchange and China Seven Star Shopping Limited, a company listed on main board of the Stock Exchange.

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally involved in the sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") System and provision of system solutions services. The principal activities of subsidiaries are set forth on in note 34 to the financial statements. During the year, the Group further extends its business scope into Intelligent Safety System (ISS) Business which include intelligent software, hardware and other related equipment such as smart cameras, smart DVRs/NVRs, smart sensors, intelligent video analysis systems.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 31 December 2012 are set out in note 6 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 53 of this annual report.

DIVIDENDS

The Directors recommended the payment of a final dividend of HK3.6 cents per ordinary share, totaling approximately HK$101,827,000 in respect of the year to shareholders on the register of members on Thursday, 6 June 2013. The proposed final dividend of approximately HK$101,827,000 for the year ended 31 December 2012 is calculated on the basis of 2,828,516,924 ordinary shares in issue on 18 March 2013. The proposed dividend has been approved at the Company's Board meeting on 18 March 2013, but is subject to the approval of the shareholders at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of share premium within the equity section of the statement of financial position.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements, is set forth on page 140 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements. Share were issued during the year for acquisition of subsidiaries together with exercise of warrants and share options.

RESERVES AND DISTRIBUTABLE RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and on page 56 of this annual report to the consolidated statement of changes in equity.

Distributable reserves of the Company as at 31 December 2012 calculated under applicable regulations amounted to approximately HK$1,755,673,000 (2011: HK$1,596,949,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Executive Directors

Mr. Liu Zhongkui, *Chairman and Chief Executive Officer*
Mr. Wang Bo, *Vice-Chairman (appointed on 15 June 2012)*
Mr. Lin Supeng
Mr. Yang Ma
Mr. Zhong Houtai *(resigned on 9 January 2012)*
Mr. Zhong Houyao *(resigned on 9 January 2012)*

Non-executive Directors

Mr. Adiv Baruch *(appointed on 17 September 2012)*
Mr. Wang, John Peter Ben *(appointed on 17 September 2012)*

Independent non-executive Directors

Mr. Pei Renjiu *(resigned on 23 April 2012)*
Mr. Xie Baitang
Mr. Cheung Chuen
Mr. Chen Feng *(appointed on 9 January 2012)*

Pursuant to the Company's articles of association, Mr. Yang Ma and Mr. Xie Baitang will retire from office as Directors by rotation at the forthcoming annual general meeting of the Company and Mr. Wang Bo, Mr. Adiv Baruch and Mr. Wang, John Peter Ben will retire from office as Directors at the forthcoming annual general meeting. All of Mr. Yang Ma, Mr. Xie Baitang, Mr. Wang Bo, Mr. Adiv Baruch and Mr. Wang, John Peter Ben being eligible, will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into a written service contract with the Company and were appointed for a term of two years (except for Mr. Wang Bo who was appointed for a term of one year) and all executive Directors are subject to retirement by rotation in accordance with the articles of association of the Company.

All the non-executive Directors have not entered into any written service contract with the Company but have been appointed for a term of one year and is also subject to the retirement by rotation in accordance with the articles of association of the Company.

All the independent non-executive Directors have not entered into any written service contract with the Company but were appointed for a term of two years (except for Mr. Cheung Chuen who was not appointed for a specific term), and all are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

	Number of Shares held		Number of options held		Approximate percentage of total issued ordinary Shares
Name of Director	Personal Interest	Corporate Interest	Personal Interest	Total	
Mr. Liu Zhongkui	7,600,000	–	2,600,000	10,200,000	0.36
Mr. Lin Supeng	–	–	2,600,000	2,600,000	0.09
Mr. Yang Ma	–	–	2,600,000	2,600,000	0.09

Note: The percentage has been calculated based on the total number of 2,826,160,924 ordinary shares of the Company in issue as at 31 December 2012.

Saved as disclosed above, as at 31 December 2012, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who have the interest or short positions in the shares, underlying shares or the equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in notes 13 and 14 to the financial statements.

EMOLUMENTS OF MEMBERS OF SENIOR MANAGEMENT

	Number of individuals	
	2012	2011
Emolument band		
Nil to HK$1,000,000	**5**	4
HK$1,000,001 – HK$2,000,000	**0**	0

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year or at 31 December 2012.

SHARE OPTION SCHEME

On 3 November 2003, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme") as an incentive to selected participants. The Share Option Scheme will expire on 2 November 2013. 158,820,000 share options were granted at an exercise price of HK$1.5 per share and 37,000,000 share options were exercised during the year under review and the share option cost that was charged to the income statement was approximately HK$70,392,000 (2011: approximately HK$25,289,000). No options has been cancelled or lapsed during the year under review. There are 158,820,000 share options outstanding as at 31 December 2012.

Movements of the options, which were granted and exercised under the Share Option Scheme, during the year under review were listed below:

Category	Date of grant	Number of share option held as at 01/01/2012	Number of share option granted during the year	Number of share option exercised during the year	Number of share option lapsed during the year	Number of share option held as at 31/12/2012	Exercise price HK$	Exercise period
Directors:								
Mr. Liu Zhongkui	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Mr. Lin Supeng	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Mr. Yang Ma	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Other eligible participants:								
Consultants	1 April 2011	37,000,000	–	–	–	37,000,000	2.25	01/04/2011 – 02/11/2013
Consultants	16 April 2012	–	114,800,000 (Note)	(37,000,000)	–	77,800,000	1.5	16/04/2012 – 15/04/2015 (Note)
Employee	16 April 2012	–	33,620,000 (Note)	–	–	33,620,000	1.5	16/04/2012 – 15/04/2015 (Note)
Substantial shareholder	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
		37,000,000	158,820,000	(37,000,000)	–	158,820,000		

Note:

These share options are exercisable within the said exercise period in the following manner:

1.	110,500,000 share options	:	any time within the exercise period, i.e. 16 April 2012 to 15 April 2015	
2.	1,500,000 share options	:	(i)	up to one-third of the grantee's entitlement from the date of grant, i.e. 16 April 2012;
			(ii)	up to two-thirds of the grantee's entitlement from the date after the expiry of 12 months from the date of grant, i.e. 16 April 2013; and
			(iii)	up to the grantee's full entitlement from the date after the expiry of 24 months from the date of grant, i.e. 16 April 2014.
3.	46,820,000 share options (including 10,400,000 share options to Directors and substantial shareholder (as defined in the Listing Rules) of the Company)	:	(i)	up to 30% of the grantee's entitlement from the date of grant, i.e. 16 April 2012;
			(ii)	up to 60% of the grantee's entitlement from the date after the expiry of 12 months from the date of grant, i.e. 16 April 2013; and
			(iii)	up to the grantee's full entitlement from the date after the expiry of 24 months from the date of grant, i.e. 16 April 2014.

Further details of share options were set out in note 33 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed under the section headed "Related Party Transactions" on page 33 of this annual report, no contract of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the year ended 31 December 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons or companies (other than the Directors and chief executives) had interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follow:

Name of substantial shareholder	Capacity in which shares were held	Number of shares	Number of underlying shares	Total	Approximate percentage of shareholding
Chen Hong	Interest of controlled corporation (Note 3)	553,688,000	2,600,000	556,288,000	19.68%
Jin Yong Investments Limited	Beneficial owner (Note 3)	232,168,000	0	232,168,000	8.21%
Elite Achieve Limited	Beneficial owner (Note 3)	223,620,000	0	223,620,000	7.91%

Notes:

1. The above are all long positions in the ordinary shares of the Company.

2. The percentage has been calculated based on the total number of 2,826,160,924 ordinary shares of the Company in issue as at 31 December 2012.

3. The 97,900,000 shares are owned by Mr. Chen Hong in person. The 232,168,000 shares and 223,620,000 shares are owned by Jin Yong Investments Limited and Elite Achieve Limited respectively. Both Jin Yong Investments Limited and Elite Achieve Limited are wholly owned by Mr. Chen Hong. Therefore, Mr. Chen Hong is deemed to be interested in the shares held by Jin Yong Investments Limited and Elite Achieve Limited under the SFO.

Save as disclosed above, as at 31 December 2012, the Directors are not aware of any other person (other than the Directors, whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares"), had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by the Company under Part XV of section 336 of the SFO.

EMOLUMENT POLICY

The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

The Company adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 33 to the financial statements.

INDEPENDENCE CONFIRMATION

The Board considered that all independent non-executive Directors to be independent in character and judgment. None of the independent non-executive Directors have relationships or circumstances that are likely to adversely affect their professional judgment and each of the independent non-executive Director has provided confirmation of his independence to the Group pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Particulars of the independent non-executive Directors are set out in the section headed "Directors, Senior Management and Staff" on pages 21 to 25 of this annual report.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2012, apart from those disclosed in note 35 to the financial statements, the Group had no transactions with any of the related or connected parties.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all eligible employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the year ended 31 December 2012 was approximately HK$1,381,000 (2011: HK$461,000). The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to its staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,250 with effect from 1 June 2012/HK$1,000 prior to 1 June 2012 by each of the employee and the Group) on a monthly basis to the fund.

CORPORATE GOVERNANCE

The details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" on pages 36 to 50 of this annual report.

AUDIT COMMITTEE

The annual report of the Group for the year ended 31 December 2012 has been reviewed by the Audit Committee. Details on the composition of the Audit Committee are set out in the section headed "Corporate Governance Report" on pages 36 to 50 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained during the year the amount of public float as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers for the year are as follows:

	2012	2011
	%	%
Percentage of purchases:		
From the largest supplier	**25**	84
From the five largest suppliers	**36**	92
Percentage of turnover:		
From the largest customer	**11**	24
From the five largest customers	**42**	70

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2012.

AUDITOR

Crowe Howath (HK) CPA Limited was auditor of the Company for the year ended 31 December 2009 and resigned as auditor of the Company on 6 December 2010. Deloitte Touche Tohmatsu ("Deloitte") was appointed as auditor of the Company on 15 December 2010 and the consolidated financial statements for the year ended 31 December 2010 was audited by Deloitte.

Deloitte was auditor of the Company for the year ended 31 December 2010 and resigned as auditor of the Company on 5 December 2011. BDO Limited ("BDO") was appointed as auditor of the Company on 8 December 2011 and the consolidated financial statements for the year ended 31 December 2011 and 31 December 2012 both were audited by BDO. A resolution for the re-appointment of BDO as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Liu Zhongkui
Chairman and Chief Executive Officer

Hong Kong, 18 March 2013

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standard of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and came into full effect on 1 April 2012.

Throughout the year under review, the Company has complied with most of the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012, save for the deviations from code provisions A.2.1 and A.4.1 which are explained below.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and the Revised CG Code and align with the latest developments.

BOARD OF DIRECTORS

The Composition of the Board of Directors

As at 31 December 2012 and as at the date of the report, there were seven Board members consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Liu Zhongkui, *Chairman and Chief Executive Officer*
Mr. Wang Bo, *Vice-Chairman (appointed on 15 June 2012)*
Mr. Lin Supeng
Mr. Yang Ma
Mr. Zhong Houtai *(resigned on 9 January 2012)*
Mr. Zhong Houyao *(resigned on 9 January 2012)*

Non-executive Directors

Mr. Adiv Baruch *(appointed on 17 September 2012)*
Mr. Wang, John Peter Ben *(appointed on 17 September 2012)*

Independent non-executive Directors

Mr. Pei Renjiu *(resigned on 23 April 2012)*
Mr. Xie Baitang
Mr. Cheung Chuen
Mr. Chen Feng *(appointed on 9 January 2012)*

The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. Each of the Directors' respective biographical details is set out in the section headed "Directors, Senior Management and Staff" of this annual report. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review. Besides, to the best knowledge of the Company, there is no financial, business, family or other material/ relevant relationship between the Directors and each of the Directors also does not have any direct or indirect material relationship with the Group.

Role and Function

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

Delegation by the Board

The Board also reserves for its decisions on all major matters of the Company, including: the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time.

Board Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Number of Board Meetings and Attendance Records

During the year ended 31 December 2012, the Company held 28 Board meetings, and the Directors' attendance records for the meetings held are set out below.

	Number of meetings attended/		
	Number of Board meetings held	AGM held on 18 May 2012	EGM held on 7 March 2012
Executive Directors			
Mr. Liu Zhongkui *(Chairman and Chief Executive Officer)*	28/28	1/1	1/1
Mr. Wang Bo *(vice-chairman)* (Note 1)	13/13	N/A	N/A
Mr. Lin Supeng	28/28	1/1	1/1
Mr. Yang Ma	28/28	1/1	0/1
Mr. Zhong Houtai (Note 2)	0/1	N/A	N/A
Mr. Zhong Houyao (Note 2)	0/1	N/A	N/A
Non-Executive Directors			
Mr. Adiv Baruch (Note 3)	4/4	N/A	N/A
Mr. Wang, John Peter Ben (Note 3)	4/4	N/A	N/A
Independent non-Executive Directors			
Mr. Cheung Chuen	28/28	1/1	0/1
Mr. Pei Renjiu (Note 4)	0/12	N/A	0/1
Mr. Xie Baitang	28/28	1/1	1/1
Mr. Chen Feng (Note 5)	28/28	0/1	0/1

Note 1: Mr. Wang Bo was appointed as an executive Director on 15 June 2012. During his appointment period in 2012, there were a total of 13 Board Meetings.

Note 2: Mr. Zhong Houtai and Mr. Zhong Houyao were resigned as executive Directors on 9 January 2012. Before their resignation, there was a total of 1 Board Meeting.

Note 3: Mr. Adiv Baruch and Mr. Wang, John Peter Ben were appointed as non-executive Directors on 17 September 2012. During their appointment period in 2012, there were a total of 4 Board Meetings.

Note 4: Mr. Pei Renjiu was resigned as an independent non-executive Director on 23 April 2012. Before his resignation, there were a total of 12 Board Meetings.

Note 5: Mr. Chen Feng was appointed as an independent non-executive Director on 9 January 2012, During his appointment period in 2012, there were a total of 28 Board Meetings.

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing over one-third of the Board of Directors. Amongst them, Mr. Cheung Chuen, who is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has more than 10 years' experience in accounting and auditing, has the appropriate professional qualifications required under Rule 3.10(2) of the Listing Rules.

Directors' Induction and Continuous Professional Development

All Directors, including Non-executive Director and Independent non-Executive Directors, should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

During the year ended 31 December 2012, one in-house briefing sessions for reviewing the Revised CG Code and associated Listing Rules were organized for the Directors. The relevant materials were also sent to the Directors who were not available to attend the briefing session for their information. The Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Directors	Read Materials	Attended Seminars/Briefings
Executive Directors		
Mr. Liu Zhongkui	✓	✓
Mr. Wang Bo *(appointed on 15 June 2012)*	✓	✓
Mr. Lin Supeng	✓	✓
Mr. Yang Ma	✓	✓
Mr. Zhong Houtai *(resigned on 9 January 2012)*	–	–
Mr. Zhong Houyao *(resigned on 9 January 2012)*	–	–
Non-executive Directors		
Mr. Adiv Baruch *(appointed on 17 September 2012)*	✓	
Mr. Wang, John Peter Ben *(appointed on 17 September 2012)*	✓	
Independent non-executive Directors		
Mr. Pei Renjiu *(resigned on 23 April 2012)*	–	–
Mr. Xie Baitang	✓	✓
Mr. Cheung Chuen	✓	✓
Mr. Chen Feng *(appointed on 9 January 2012)*	✓	✓

CHAIRMAN AND CEO

According to the code provision A2.1 of the Revised CG Code, the roles of the chairman and the chief executive officer ("CEO") should be segregated. However, Mr. Liu Zhongkui currently holds the offices of Chairman and CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

NON-EXECUTIVE DIRECTORS

According to the code provision A4.1 of the Revised CG Code, independent non-executive directors should be appointed for a specific term of service. The non-executive Director was appointed for a term of one year and is also subject to the retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years in accordance with the articles of association of the Company. All the independent non-executive Directors were appointed for a term of two years (except for Mr. Cheung Chuen who was not appointed for a specific term), but all are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years in accordance with the articles of association of the Company. Such practice meets the same objective and is no less exacting than those prescribed under the code provision A4.1 of the Revised CG Code.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. During the year under review, the Company had complied with the Model Code. After making inquiry of the Directors, the Company confirmed that the Directors had complied with the provisions of the Model Code.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee on 3 November 2003 with written terms of reference in compliance with the Former CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Chen Feng, Mr. Xie Baitang and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. On 28 March 2012, the Board adopted a set of the revised terms of reference of the Audit Committee, which has included changes in line with the Revised CG Code requirements effective from 1 April 2012. The revised terms of reference setting out the audit committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that it is necessary. 3 meetings were held during the current financial year. The attendance records for the audit committee meetings are set out below:

Members of the audit committee	**Number of audit committee meeting attended/ Number of audit committee meeting held**
Mr. Cheung Chuen *(Chairman)*	3/3
Mr. Pei Renjiu *(resigned as Audit Committee member on 23 April 2012)* (Note 1)	0/2
Mr. Chen Feng *(appointed as Audit Committee member on 9 January 2012)* (Note 2)	3/3
Mr. Xie Baitang	3/3

Note 1: Mr. Pei Renjiu was resigned as an independent non-executive Director on 23 April 2012. Before his resignation, there were a total of 2 Audit Committee meetings.

Note 2: Mr. Chen Feng was appointed as an independent non-executive Director on 9 January 2012. Before his appointment period in 2012, there were a total of 3 Audit Committee meetings.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2011 and interim results and interim report for the six months ended 30 June 2012, the financial reporting and compliance procedures, the report on the Company's internal control and processes and the re-appointment of the external auditor. The Audit Committee has also reviewed the Group's annual results and annual report for the year ended 31 December 2012.

Nomination Committee

The nomination committee has been established with a defined terms of reference in consistent with the Revised CG Code on 28 March 2012. The primary duties of the nomination committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive Directors. The nomination committee is led by Mr. Liu Zhongkui, the executive Director, the chairman and the CEO. Members of the nomination committee include Mr. Xie Baitang, Mr. Cheung Chuen and Mr. Chen Feng, all are independent non-executive Directors. The terms of reference setting out the nomination committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

Before the nomination committee was established, all Directors of the Company are responsible for making recommendations to the Board on nomination and appointment of Directors and Board succession, with a view to appoint to the Board individuals with suitable experience and capabilities to maintain and improve the competitiveness of the Company.

Where vacancies on the Board exist, the nomination committee (or the Board before the nomination committee was established), will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations.

During the year under review, one Board Meeting was held to consider the appointment of Mr. Chen Feng as an independent non-executive Director before the nomination committee was established. 4 nomination committee meeting were held, inter alia, for considering the appointment of Mr. Wang Bo as executive Director and Mr. Adiv Baruch and Mr. Wang, John Peter Ben as non-executive Directors. All of the aforesaid newly appointed Directors were appointed by going through the selection process stated as above and the re-election of the Directors retired by rotation in accordance with the Company's articles of association.

The attendance records for the nomination committee meetings are set out below:

Members of the nomination committee	Number of nomination committee attended/ Number of nomination committee meeting held
Mr. Liu Zhongkui *(Chairman)*	4/4
Mr. Xie Baitang	4/4
Mr. Cheung Chuen	4/4
Mr. Chen Feng	4/4

Remuneration Committee

The remuneration committee is established on 5 August 2005 with a defined terms of reference in consistent with the Former CG Code. The primary duties of the remuneration committee include making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The remuneration committee is led by Mr. Xie Baitang, an independent non-executive Director. Members of the remuneration committee include Mr. Chen Feng and Mr. Cheung Chuen, both are independent non-executive Directors. On 28 March 2012, the Board adopted a set of the revised terms of reference of the remuneration committee, which has included changes in line with the Revised CG Code requirements effective from 1 April 2012. The revised terms of reference setting out the remuneration committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme. The Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual Executive Directors and senior management.

The Remuneration Committee held 5 meetings during the year ended 31 December 2012 including to review the remuneration policy and structure and determine the annual remuneration packages of the Directors and the senior management and determine the annual remuneration of Mr. Chen Feng, Mr. Wang Bo, Mr. Adiv Baruch and Mr. Wang, John Peter Ben, the newly appointed Directors during the year. In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the desirability of performance based remuneration.

The attendance record of individual committee members is set out below:

Members of the remuneration committee	Number of remuneration committee meeting attended/ Number of remuneration committee meeting held
Mr. Xie Baitang *(Chairman)*	5/5
Mr. Cheung Chuen	5/5
Mr. Pei Renjiu *(resigned on 23 April 2012)* (Note 1)	0/1
Mr. Chen Feng *(appointed on 9 January 2012)* (Note 2)	5/5

Note 1: Mr. Pei Renjiu was resigned as an independent non-executive Director of the Company on 23 April 2012. Before his resignation, there was a total of 1 Remuneration Committee meeting.

Note 2: Mr. Chen Feng was appointed as an independent non-executive Director of the Company on 9 January 2012. During his appointment period in 2012, there was a total of 5 Remuneration Committee meeting.

Emolument Policy

The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

The Company adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 33 to the financial statements.

Corporate Governance Committee

The corporate governance committee has been established with a defined terms of reference in consistent with the Revised CG Code on 28 March 2012. The primary duties of the corporate governance committee include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report annually. The corporate governance committee is led by Mr. Liu Zhongkui, the executive Director, the chairman and the CEO. Members of the corporate governance committee include Mr. Xie Baitang, Mr. Cheung Chuen and Mr. Chen Feng, all are independent non-executive Directors.

During the year under review, no meeting of the corporate governance committee was held. The first corporate governance committee meeting was held on 18 March 2013.

ACCOUNTABILITY AND AUDIT

Directors' Financial Reporting

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The statement of external auditor of the Company, BDO Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

Internal controls

The Board through the audit committee is responsible for maintaining proper internal controls within the Group.

The internal control systems are designed to provide reasonable assurance of the Company's assets, safeguarding them against unauthorised use or disposition by making sure transactions are executed in accordance with management's authorization and that the accounting records are reliable for the preparation of financial information used for the business and publication. The Company has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure the Company's assets and resources are safeguarded.

During the year, the Board has engaged Crowe Horwath (HK) Corporate Consultancy Limited to perform internal control review to assist the Board in reviewing the effectiveness of the internal control system of the Group. The Board and the audit committee are satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory and will make further improvements.

Auditor's Remuneration

During the year ended 31 December 2012, the fees paid/payable to BDO Limited, the auditor of the Company, in respect of audit and related services provided by BDO Limited to the Group were as follows:

	2012
	HK$
Audit and related services	1,300,000

INVESTOR RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. A Shareholder's Communication Policy was adopted by the Board on 28 March 2012 aiming at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. To promote investor relations and communications, meeting with fund managers and potential substantial investors are held frequently. The Company acknowledges that its annual general meeting ("AGMs") is an important channel for having direct communication with shareholders of the Company. At the meeting, the Directors and key executives of the Group will answer and explain to Shareholders issues relating to the Group's business strategies and financial results.

The 2012 AGM held on 18 May 2012, the Chairman of the Board and the Chairmen of the audit committee, remuneration committee and nomination committee have attended the 2012 AGM to answer questions of the Shareholders. Under the Code Provision A.6.7 of the Revised CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagement, some independent non-executive Directors could not attend the 2012 AGM and the EGM held on 7 March 2012. However, at the respective general meeting of the Company, there were executive Directors and some independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the Shareholders.

The Company is dedicated to providing quality and timely disclosure of information to enhance transparency. The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.anxin-china.com.hk;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information and the Memorandum and Articles of Association of the Company are made available on the Company's website;

(iv) AGMs and extraordinary general meetings ("EGMs") provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Company's share registrars' serves the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

SHAREHOLDERS' RIGHT

As one of the measures to safeguard shareholder's interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the Stock Exchange's website and the Company's website after the relevant Shareholders' meeting.

EGMs may be convened by the Board on requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to article 68 of the articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the Company's head office in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's head office in Hong Kong.

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial service and has appointed Ms. Leung Pui Ki as its Company Secretary. Ms. Leung has confirmed that for the year under review, she has taken no less than 15 hours of relevant professional training. The biography of Ms. Leung is set out on the section "Directors, Senior Management and Staff" of this annual report. Ms. Leung is not an employee of our Group and Mr. Chow Chi Wa, our Compliance Officer, is the person whom Ms. Leung can contact for the purpose of Code F.1.1 of the Revised CG Code as set out in Appendix 14 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

During the year under review, there is no change in the Company's constitutional documents.

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF ANXIN-CHINA HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Anxin-China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 139, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 18 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7	**849,730**	598,172
Cost of sales		**(132,775)**	(61,689)
Gross profit		**716,955**	536,483
Other revenue	8	**97,278**	48,368
Other gains and (losses)	9	**46,049**	(22,315)
Selling and distribution costs		**(116,814)**	(65,452)
Administrative expenses		**(45,041)**	(31,028)
Research and development expenses		**(77,394)**	(51,462)
Finance costs	10	**(6,326)**	(12,346)
Profit before income tax expense	11	**614,707**	402,248
Income tax (expense)/credit	15	**(66,882)**	1,972
Profit for the year		**547,825**	404,220
Profit for the year attributable to			
Owners of the Company	16	**547,872**	404,220
Non-controlling interests		**(47)**	–
		547,825	404,220
Other comprehensive income includes			
Exchange gains arising on translation of financial statements of foreign operations		**37,354**	125,717
Other comprehensive income for the year		**37,354**	125,717
Total comprehensive income for the year		**585,179**	529,937
Total comprehensive income for the year attributable to			
Owners of the Company		**585,228**	529,937
Non-controlling interests		**(49)**	–
		585,179	529,937
Earnings per share (HK cents)	17		
– Basic		**20.00**	16.37
– Diluted		**19.89**	15.35

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**135,051**	107,719
Goodwill	19	**1,296,803**	1,129,430
Other intangible assets	20	**651,770**	83,722
Deferred tax assets	28	**1,659**	5,338
Total non-current assets		**2,085,283**	1,326,209
Current assets			
Inventories	21	**19,353**	10,798
Trade and other receivables	22	**378,256**	235,468
Restricted bank deposits	24	**18,500**	–
Cash and cash equivalents	24	**1,580,697**	1,077,795
Total current assets		**1,996,806**	1,324,061
Total assets		**4,082,089**	2,650,270
Current liabilities			
Trade and other payables	25	**163,796**	49,782
Contingent consideration shares	26	**270,142**	–
Current tax liabilities		**59,061**	12,963
Total current liabilities		**492,999**	62,745
Net current assets		**1,503,807**	1,261,316
Total assets less current liabilities		**3,589,090**	2,587,525
Non-current liabilities			
Promissory note	27	**78,658**	–
Deferred tax liabilities	28	**100,570**	11,929
Total non-current liabilities		**179,228**	11,929
Total liabilities		**672,227**	74,674
NET ASSETS		**3,409,862**	2,575,596
Capital and reserves attributable to owners of the Company			
Share capital	29	**282,616**	268,087
Reserves	30	**3,127,246**	2,305,066
Equity attributable to owners of the Company		**3,409,862**	2,573,153
Non-controlling interests		**–**	2,443
TOTAL EQUITY		**3,409,862**	2,575,596

On behalf of the Board

Liu Zhongkui
Director

Lin Supeng
Director

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**1,161**	1,505
Investment in subsidiaries	34	**694,256**	1
Total non-current assets		**695,417**	1,506
Current assets			
Other receivables	22	**1,593,868**	1,706,843
Restricted bank deposits	24	**1,708**	–
Cash and cash equivalents	24	**32,947**	10,179
Total current assets		**1,628,523**	1,717,022
Total assets		**2,323,940**	1,718,528
Current liabilities			
Other payables	25	**99,672**	1,199
Contingent consideration shares	26	**270,142**	–
Total current liabilities		**369,814**	1,199
Net current assets		**1,258,709**	1,715,823
Total assets less current liabilities		**1,954,126**	1,717,329
Non-current liabilities			
Promissory note	27	**78,658**	–
Total non-current liabilities		**78,658**	–
Total liabilities		**448,472**	1,199
NET ASSETS		**1,875,468**	1,717,329
Capital and reserves attributable to owners of the Company			
Share capital	29	**282,616**	268,087
Reserves	30	**1,592,852**	1,449,242
TOTAL EQUITY		**1,875,468**	1,717,329

On behalf of the Board

Liu Zhongkui
Director

Lin Supeng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share Capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Warrant reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Share-based payment reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2011	207,975	997,751	121,838	25,172	14,911	–	–	19,608	–	13,108	105,133	–	1,505,496	–	1,505,496
Profit for the year	–	–	–	–	–	–	–	–	–	–	404,220	–	404,220	–	404,220
Other comprehensive income	–	–	–	–	–	–	–	–	–	125,717	–	–	125,717	–	125,717
Total comprehensive income	–	–	–	–	–	–	–	–	–	125,717	404,220	–	529,937	–	529,937
Issue of shares on conversion of convertible notes	43,230	274,019	(121,838)	–	–	–	–	–	–	–	–	–	195,411	–	195,411
Issue of shares on exercise of warrants	7,500	84,641	–	(25,041)	–	–	–	–	–	–	–	–	67,100	–	67,100
Capital injection from non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	2,443	2,443
Issue of new shares	14,010	296,942	–	–	–	–	–	–	–	–	–	–	310,952	–	310,952
Purchase of own shares for cancellation	(4,628)	(56,404)	–	–	–	–	–	–	–	–	–	–	(61,032)	–	(61,032)
Provision for statutory reserves	–	–	–	–	–	13,255	–	–	–	–	(13,255)	–	–	–	–
Share-based payment expenses	–	–	–	–	–	–	–	–	25,289	–	–	–	25,289	–	25,289
Proposed final dividend	–	(80,426)	–	–	–	–	–	–	–	–	–	80,426	–	–	–
Balance at 31 December 2011	268,087	1,516,523	–	131	14,911	13,255	–	19,608	25,289	138,825	496,098	80,426	2,573,153	2,443	2,575,596
Balance at 1 January 2012	268,087	1,516,523	–	131	14,911	13,255	–	19,608	25,289	138,825	496,098	80,426	2,573,153	2,443	2,575,596
Profit for the year	–	–	–	–	–	–	–	–	–	–	547,872	–	547,872	(47)	547,825
Other comprehensive income	–	–	–	–	–	–	–	–	–	37,356	–	–	37,356	(2)	37,354
Total comprehensive income	–	–	–	–	–	–	–	–	–	37,356	547,872	–	585,228	(49)	585,179
Issue of shares upon exercise of warrants	1,500	16,931	–	(131)	–	–	–	–	–	–	–	–	18,300	–	18,300
Issue of new shares	9,329	150,561	–	–	–	–	–	–	–	–	–	–	159,890	–	159,890
Shares-based payment expenses	–	–	–	–	–	–	–	–	70,392	–	–	–	70,392	–	70,392
Issue of shares upon exercise of share options	3,700	72,628	–	–	–	–	–	–	(20,828)	–	–	–	55,500	–	55,500
Deregistration of non-wholly-owned subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,394)	(2,394)
Provision for statutory reserves	–	–	–	–	–	11,218	–	–	–	–	(11,218)	–	–	–	–
Equity-settled share-based payment expenses	–	–	–	–	–	–	28,795	–	–	–	–	–	28,795	–	28,795
Distribution of 2011 final dividends	–	(970)	–	–	–	–	–	–	–	–	–	(80,426)	(81,396)	–	(81,396)
Proposed final dividend	–	(101,827)	–	–	–	–	–	–	–	–	–	101,827	–	–	–
Balance at 31 December 2012	282,616	1,653,846	–	–	14,911	24,473	28,795	19,608	74,853	176,181	1,032,752	101,827	3,409,862	–	3,409,862

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Profit before income tax expense		**614,707**	402,248
Adjustments for:			
Interest income		**(5,669)**	(4,564)
Provision for impairment loss on goodwill		**7,663**	–
Finance costs		**6,326**	12,341
Fair value changes on contingent consideration shares		**33,209**	–
Exchange gains, net		**(681)**	(10,540)
Depreciation and amortisation		**73,819**	39,328
Equity-settled share-based payment expenses		**28,795**	–
Shares-based payment expenses		**70,392**	25,289
(Gain)/loss on disposal of plant and equipment		**(38)**	168
(Reversal)/provision of impairment loss on trade receivables		**(23,493)**	23,493
Provision of impairment loss on property, plant and equipment		**–**	9,133
Compensation gain arising from acquisition of Yu Hong Group	36	**(61,490)**	–
Operating profit before working capital changes		**743,540**	496,896
Increase in trade and other receivables		**(78,922)**	(170,514)
Decrease/(increase) in inventories		**14,798**	(8,873)
(Decrease)/increase in trade and other payables		**(28,046)**	24,746
Cash generated from operations		**651,370**	342,255
Income tax paid		**(32,971)**	(5,657)
Interest expenses paid		**–**	(360)
Net cash from operating activities		**618,399**	336,238
Cash flows from investing activities			
Purchases of property, plant and equipment		**(19,464)**	(7,107)
Purchases of intangible assets		**(23,226)**	–
Proceed from disposal of plant and equipment		**60**	–
Acquisition of subsidiaries, net of cash acquired	36	**(69,037)**	–
Increase in restricted bank deposits		**(18,312)**	–
Repaid from/(advanced to) related parties		**1,197**	(569)
Interest received		**5,669**	4,564
Net cash used in investing activities		**(123,113)**	(3,112)
Cash flows from financing activities			
Proceeds from issue of shares upon exercise of warrants		**18,300**	67,100
Proceeds from issue of shares upon exercise of share options		**55,500**	–
Proceeds from issue of new shares		**–**	310,952
Dividends paid		**(79,688)**	–
Payment for deregistration of subsidiary		**(2,394)**	–
Repurchase of shares		**–**	(61,032)
Capital injection from a non-controlling shareholder		**–**	2,443
Repayment of borrowings		**–**	(20,483)
Net cash (used in)/generated from financing activities		**(8,282)**	298,980
Net increase in cash and cash equivalents		**487,004**	632,106
Cash and cash equivalents at beginning of year		**1,077,795**	400,322
Effect of exchange rate changes on cash and cash equivalents		**15,898**	45,367
Cash and cash equivalents at end of year	24	**1,580,697**	1,077,795
Analysis of the balances of cash and cash equivalents cash and bank balances		**1,580,697**	1,077,795

1. GENERAL

Anxin-China Holdings Limited ("the Company") is a limited liability company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located at Unit 01-05, 20F, Harbour Centre, No.25 Harbour Road, Wanchai, Hong Kong.

In April 2012, the Group acquired Yu Hong Investments Limited and its subsidiaries (the "Yu Hong Group") (note 36(a)) whose principal activities are design, development, production and distribution of security and protection products, surveillance cameras and Closed Circuit Television ("CCTV") products (the "Yu Hong Acquisition"). The principal activities and other particulars of the subsidiaries are set out in note 34 to the consolidated financial statements.

In August 2012, the Group acquired Tech Praise Limited and its subsidiaries (the "Tech Praise Group") (note 36(c)) whose principal activities are customising Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") solutions according to customer needs, the provision of ISD hardware and software and ongoing ISD agency operations and maintenance services (the "Tech Praise Acquisition").

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale of system hardware and application software for installation of ISD Systems, provision of system solutions services and the design, development, production and distribution of security and protection products, surveillance cameras and CCTV products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of amendments to HKFRSs – first effective 1 January 2012

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these amendments has no material impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting financial assets and financial liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[3]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to the following standards.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle (Continued)

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle (Continued)

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 11 – Joint Arrangements

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these pronouncements will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the deferred considerations that are classified as financial liabilities at fair value through profit or loss and carried at fair value.

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

The results of subsidiaries acquired or disposed of during a financial year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Plant and machinery	10%
Office and other equipment	20%
Motor vehicles	10%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

(f) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

(i) Acquired intangible assets (Continued)

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales.

Patent	5-10 years
Technology	5-10 years
Service contracts	9 years
Customer base and unfinished contracts	2-5 years

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(g) Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(i) Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade and other debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of the debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

An impairment loss is recognised in profit and loss when there is objective evidence that a financial asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account. When any part of a financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings and promissory note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed number of the Company's own equity instruments are classified as an equity instrument. The warrant reserve will be transferred to share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrants reserve will be transferred to retained profits.

(viii) Derecognition

The Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(viii) Derecognition (Continued)

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(i) Revenue recognition

Revenue from sales of system hardware and application software is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

- it is probable that the economic benefits associated with the transaction will flow to the Group; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

System solution services income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assesses on the basis of the actual service provided as a proportion of the total services to be provided. When the services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. Then a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Subsidy income is recognised when the rights to receive the income is established and approved.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes (Continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currency (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal and are attributable to the owners of the Company are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(l) Employee benefits

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(n) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

- property, plant and equipment;
- intangible assets with finite lives; and
- investments in subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment of other assets (Continued)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(o) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies

Investment property

The Group has temporarily sub-let a vacant property but has decided not to treat this property as an investment property because it is not the Group's intention to hold this property in the long-term for capital appreciation or rental income. Accordingly, this property is continuously accounted for as an item of other property, plant and equipment.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(a) Critical judgments in applying accounting policies (Continued)

Determination of functional currency

The directors consider that the functional currency of the Company is and has always been Hong Kong dollars as the Company is an investment holding company in Hong Kong with its investing decisions and financing activities carried out under the economic environment in Hong Kong.

Taxation

Determining income and other tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such difference will impact the income and other tax and deferred tax provisions in the year in which such determination is made.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Assessment of useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

Impairment of intangible assets

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's system hardware and application software acquired and system solution services provided. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required.

Impairment of receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact carrying amount of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

Valuation of share-based payment

The directors use their judgement in selecting an appropriate valuation technique used in the valuation of share-based payment. Valuation techniques commonly used by market practitioners are applied. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate, where possible, by observable market prices or rates.

6. SEGMENT REPORTING

The Group determines its operating segment based on the reports reviewed by the chief operating decision-maker (i.e. the board of directors) for the purposes of assessing segment performance and allocating resources.

During the year ended 31 December 2012, the Group has two reportable segments as a result of acquisition of Yu Hong Group. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

(i) ISD system segment – ISD is an acronym standing for "Intelligent Surveillance Disaster Alert and Rescue Co-ordination". It involves the setting up of a dedicated communications platform using Internet-of-things technologies, through which industrial safety parameters, such as gas content in a coal mine, oil pressure in an oil depot, etc, are transmitted from industrial enterprises to the Local Government Monitoring Centre via the Internet. The Group's revenue from this segment is primarily derived from the sales of software and hardware, primarily software, to local government authorities or sub-contractors of local government authorities, as well as service charges received for ongoing systems maintenance services.

(ii) ISS segment – ISS is an acronym standing for "Intelligent Safety Systems". The Group's revenue from this segment is primarily derived from the sales of software, hardware and equipment, primarily hardware and equipment, such as surveillance cameras, CCTV products and sensors, to enterprises/governments for the purpose of ensuring industrial/public safety.

6. SEGMENT REPORTING (Continued)

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

(a) Business segment

Segment information for the year is set out below:

	ISD system segment		ISS segment		Elimination		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**742,823**	598,172	**106,907**	–	**–**	–	**849,730**	598,172
Inter-segment sales	**3,364**	–	**1,021**	–	**(4,385)**	–	**–**	–
Total	**746,187**	598,172	**107,928**	–	**(4,385)**	–	**849,730**	598,172
Segment profit	**580,577**	402,248	**26,742**	–	**–**	–	**607,319**	402,248

	ISD system segment		ISS segment		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**3,513,906**	2,650,270	**376,053**	–	**3,889,959**	2,650,270

	ISD system segment		ISS segment		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment liabilities	**154,600**	74,674	**73,596**	–	**228,196**	74,674

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

Revenue	**2012**	2011
	HK$'000	HK$'000
Reportable segment revenue	**854,115**	598,172
Elimination of inter-segment revenue	**(4,385)**	–
Consolidated revenue	**849,730**	598,172

6. SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)

Profit before income tax expense	2012 HK$'000	2011 HK$'000
Reportable segment profit	607,319	402,248
Other revenue	778	–
Other gains and losses	28,281	–
Exchange gains, net	656	–
Finance costs	(6,326)	–
Unallocated corporate expenses	(16,001)	–
Consolidated profit before income tax expenses	614,707	402,248

Assets	2012 HK$'000	2011 HK$'000
Reportable segment assets	3,889,959	2,650,270
Elimination of inter-segment receivables	(4,491)	–
Cash and cash equivalents	188,223	–
Unallocated corporate assets	8,398	–
Consolidated total assets	4,082,089	2,650,270

Liabilities	2012 HK$'000	2011 HK$'000
Reportable segment liabilities	228,196	74,674
Elimination of inter-segment liabilities	(4,491)	–
Other payables	99,672	–
Promissory note	78,658	–
Contingent consideration shares	270,142	–
Unallocated corporate liabilities	50	–
Consolidated total liabilities	672,227	74,674

6. SEGMENT REPORTING (Continued)

(c) Geographical Information

The directors of the Group consider that the Group's consolidated revenue and substantially all of its consolidated results are attributable to the market in the PRC. The Group's consolidated non-current assets are substantially located in the PRC. Accordingly, no geographical information is presented.

(d) Information about major customers

For the year ended 31 December 2012, one customer of the ISD system segment had sales of HK$90,314,000 which contributed to more than 10% of the Group's revenue.

For the year ended 31 December 2011, three customers of the ISD system segment had sales of approximately HK$141,645,000, HK$114,786,000 and HK$75,971,000 respectively each of which contributed to more than 10% of the Group's revenue.

7. TURNOVER

Turnover represents the invoiced value of sale of application software and system hardware, security and protection products and manufacturing and sales of surveillance cameras and CCTV products, and system solution service income, after discounts and rebates, earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2012	2011
	HK$'000	HK$'000
Sales of application software and system hardware	**639,491**	563,843
Sales of surveillance cameras and CCTV products	**74,295**	–
System solution service income	**135,944**	34,329
	849,730	598,172

8. OTHER REVENUE

	2012	2011
	HK$'000	HK$'000
Refund of value-added tax (note a)	84,876	41,723
Interest income	5,669	4,564
Subsidy income (note b)	3,975	2,081
Others	2,758	–
	97,278	48,368

Note:

(a) The refund of value-added tax ("VAT") represents the benefits from VAT collected from customers on the sale of self-developed software which are eventually retained by the Group according to the "Circular on value-added tax ("VAT") policy on software products" (No. 100 [2011] Cai-Shui), issued by the State Administration of Taxation and the Ministry of Finance.

(b) The Group received subsidies from local PRC government for launching projects relating to research and development activities. There are no unfulfilled conditions relating to these grants.

9. OTHER GAINS AND (LOSSES)

	2012	2011
	HK$'000	HK$'000
Fair value changes on contingent consideration shares (note 26)	(33,209)	–
Compensation gain arising from acquisition of Yu Hong Group (note 36(a))	61,490	–
Exchange gains, net	681	10,540
Reversal of impairment loss on trade receivables	23,493	–
Provision for impairment loss on goodwill	(7,663)	–
Provision for impairment loss on trade receivables	–	(23,493)
Provision for impairment loss on property, plant and equipment	–	(9,133)
Others	1,257	(229)
	46,049	(22,315)

10. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Interest on bank loan wholly repayable within five years	–	365
Effective interest expense on convertible notes	–	11,981
Effective interest expense on promissory note	6,326	–
	6,326	12,346

11. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2012	2011
	HK$'000	HK$'000
Cost of inventories recognised as an expense	63,693	27,019
Auditor's remuneration	2,612	2,044

12. STAFF COSTS

	2012	2011
	HK$'000	HK$'000
Staff costs (including directors) comprise:		
Contributions to defined contribution retirement plans	1,381	461
Salaries and other employees benefits	23,706	13,969
Share-based payment expenses	8,402	–
	33,489	14,430

13. DIRECTORS' EMOLUMENTS

The remuneration of directors for the year ended 31 December 2012 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension HK$'000	Share-based payment expenses (note a) HK$'000	Total HK$'000
Executive directors						
Wang Bo[1]	**15**	**129**	**–**	**8**	**–**	**152**
Lin Supeng	**30**	**181**	**47**	**15**	**448**	**721**
Yang Ma	**30**	**177**	**44**	**15**	**448**	**714**
Liu Zhongkui	**30**	**302**	**76**	**23**	**448**	**879**
Non-executive directors						
Wang, John Peter Ben[2]	**8**	**–**	**–**	**–**	**–**	**8**
Adiv Baruch[2]	**8**	**–**	**–**	**–**	**–**	**8**
Independent non-executive directors						
Cheung Chuen	**169**	**–**	**–**	**–**	**–**	**169**
Xie Baitang	**248**	**–**	**–**	**–**	**–**	**248**
Pei Renjiu[3]	**8**	**–**	**–**	**–**	**–**	**8**
Chen Feng	**30**	**–**	**–**	**–**	**–**	**30**
	576	**789**	**167**	**61**	**1,344**	**2,937**

The remuneration of directors for the year ended 31 December 2011 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension HK$'000	Share-based payment expenses (note a) HK$'000	Total HK$'000
Executive directors						
Zhong Houtai	–	–	–	–	–	–
Zhong Houyao	–	–	–	–	–	–
Lin Supeng	30	93	13	8	–	144
Liu Zhongkui	17	173	34	7	–	231
Yang Ma	30	145	22	9	–	206
Independent non-executive directors						
Xie Baitang	17	–	–	–	–	17
Pei Renjiu	30	–	–	–	–	30
Li Kai Ming	13	–	–	–	–	13
Cheung Chuen	45	–	–	–	–	45
	182	411	69	24	–	686

1 Wang Bo was appointed at 15 June 2012.

2 Wang, John Peter Ben and Adiv Baruch were appointed on 17 September 2012.

3 Pei Renjiu resigned on 23 April 2012.

13. DIRECTORS' EMOLUMENTS (Continued)

Note:

(a) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for the share-based payment transactions as set out in note 4(m). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in Management Discussion and Analysis and note 33(a).

(b) No emolument was paid by the Group to any of the directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the years ended 31 December 2012 and 2011.

14. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2011: two) were directors of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining two (2011: three) individuals were as follows:

	2012	2011
	HK$'000	HK$'000
Salaries, allowances and other benefits	**1,260**	1,933
Retirement benefits scheme contributions	**43**	18
	1,303	1,951

Their emoluments were within the following bands:

	Number of individuals	
	2012	2011
Emolument band		
Nil to HK$1,000,000	**2**	2
HK$1,000,001 – HK$2,000,000	**0**	1

15. INCOME TAX EXPENSE/(CREDIT)

(a) The amount of taxation in the consolidated statement of comprehensive income represents:

	2012	2011
	HK$'000	HK$'000
Current tax – PRC Enterprise Income Tax ("EIT")		
– tax for the year	**82,577**	12,677
– over provision in respect of prior year	**(5,880)**	(3,667)
	76,697	9,010
Deferred tax (note 28)		
– Credit to profit or loss for the year	**(9,815)**	(10,982)
Income tax expense/(credit)	**66,882**	(1,972)

No provision for profits tax for group entities in the Cayman Islands or the British Virgin Islands has been made as these entities had no income assessable for profits tax in these jurisdictions for current and prior years.

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for subsidiaries incorporated in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2011: Nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25% from 1 January 2008 onwards.

Pursuant to an approval document issued by the Tax Bureau of Shenzhen, Guangdong Province, the Company's subsidiaries, Shenzhen Anxin Digital Development Co., Limited ("Shenzhen Anxin") and Shenzhen Hawell Advanced Technology Co., Ltd. ("Shenzhen Hawell") qualify as high-tech enterprise and are entitled to a preferential enterprise income tax rate of 15% for the three years from 2011 to 2013 and from 2012 to 2014, respectively.

Pursuant to an approval document issued by the Tax Bureau of Hongze, Jiangsu Province, the Company's subsidiary, Jiangsu Hongxin Intelligence Technology Co., Limited ("Jiangsu Hongxin") qualifies as a software-producing enterprise and is entitled to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014.

15. INCOME TAX EXPENSE/(CREDIT) (Continued)

(a) (Continued)

Pursuant to an approval document issued by the Tax Bureau of Yanji, Jilin Province, the Company's subsidiary, Jilin Province Yingke Information Technology Co., Ltd. ("Jilin Yingke") qualifies as a software-producing enterprise and is entitled to EIT exemption for the years 2011 and 2012 and a 50% reduction in EIT for the years from 2013 to 2015.

Other subsidiaries, which were established and operate in the PRC, are subject to EIT at a standard rate of 25% (2011: 25%).

(b) The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	HK$'000
Profit before tax	**614,707**	402,248
Tax calculated at PRC EIT rate of 25% (2011: 24%)	**153,677**	96,540
Effect of tax exemption and different tax rates of subsidiaries operating in other jurisdictions	**(72,880)**	(94,200)
Tax effect of expenses not deductible for tax purpose	**7,363**	1,878
Tax effect of revenue not taxable	**(15,398)**	(2,523)
Over provision in respect of prior year	**(5,880)**	(3,667)
Income tax expense/(credit)	**66,882**	(1,972)

16. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the year attributable to owners of the Company includes a loss of HK$93,342,000 (2011: HK$53,796,000) which has been dealt with in the financial statements of the Company.

17. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent entity is based on the following data:

	2012 **HK$'000**	2011 HK$'000
Profit for the year attributable to equity holders of the parent	**547,872**	404,220
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**–**	11,981
Fair value change on contingent consideration shares	**(914)**	–
Earnings for the purposes of diluted earnings per share	**546,958**	416,201

Number of shares	**2012**	2011
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands)	**2,739,248**	2,469,690
Effect of dilutive potential ordinary shares (thousands):		
– convertible notes	**–**	229,657
– warrants	**2,065**	12,064
– options	**4,756**	–
– contingent consideration shares	**3,663**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	**2,749,732**	2,711,411

Note:

The computation of diluted earnings per share does not assume an exercise of the Company's outstanding share options, which were granted on 1 April 2011 with exercise price of HK$2.25, as the exercise price of those options is higher than the average market price of the Company's shares for 2012.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding 3rd tranche of contingent consideration shares of 40,622,884 shares since their exercise would result in an increase in profit per share from operations and the 4th and 5th tranche of contingent consideration shares of 101,557,211 shares in aggregate as the relevant profit conditions are not satisfied at the end of the reporting period (details on contingent consideration shares, please refer to note 36(c)).

18. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2011	1,794	4,109	–	14,375	1,516	21,794
Additions	98,789	1,359	–	978	2,511	103,637
Disposals	–	(289)	–	(582)	(113)	(984)
Currency realignment	2,365	178	–	836	53	3,432
At 31 December 2011	102,948	5,357	–	15,607	3,967	127,879
Acquired through business combinations	1,511	–	385	10,316	3,749	15,961
Additions	6,273	84	527	4,329	8,251	19,464
Disposals	–	–	–	(26)	(160)	(186)
Currency realignment	1,105	40	9	404	168	1,726
At 31 December 2012	111,837	5,481	921	30,630	15,975	164,844
Accumulated depreciation and impairment						
At 1 January 2011	123	1,053	–	2,055	263	3,494
Depreciation charge for the year	4,266	962	–	1,848	534	7,610
Impairment losses provided for the year	–	–	–	9,133	–	9,133
Written back on disposals	–	(289)	–	(513)	(14)	(816)
Currency realignment	134	53	–	520	32	739
At 31 December 2011	4,523	1,779	–	13,043	815	20,160
Acquired through business combinations	105	–	109	469	239	922
Depreciation charge for the year	4,777	1,072	68	1,286	1,333	8,536
Written back on disposals	–	–	–	(25)	(139)	(164)
Currency realignment	109	25	2	181	22	339
At 31 December 2012	9,514	2,876	179	14,954	2,270	29,793
Net book value						
At 31 December 2012	102,323	2,605	742	15,676	13,705	135,051
At 31 December 2011	98,425	3,578	–	2,564	3,152	107,719

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company	Leasehold improvements	Office and other equipment	Total
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2011 and 31 December 2010	289	148	437
Additions	1,359	371	1,730
Disposals	(289)	(134)	(423)
At 31 December 2011	1,359	385	1,744
Additions	–	5	5
At 31 December 2012	1,359	390	1,749
Depreciation and impairment			
At 1 January 2011	289	141	430
Depreciation charge for the year	180	52	232
Written back on disposals	(289)	(134)	(423)
At 31 December 2011	180	59	239
Depreciation charge for the year	272	77	349
At 31 December 2012	452	136	588
Net book value			
At 31 December 2012	907	254	1,161
At 31 December 2011	1,179	326	1,505

The carrying values of the leasehold land payments above comprise land outside Hong Kong held under medium term leases as at 31 December 2012 and 2011.

A subsidiary of the Company is in the process of applying for the property ownership certificate of leasehold land and buildings located outside Hong Kong with carrying value of HK$6,433,000 (2011: HK$96,795,000).

19. GOODWILL

Group	2012 HK$'000	2011 HK$'000
Cost		
At 1 January	**1,129,430**	1,040,427
Acquisition of Yu Hong Group (note 36(a))	**119,543**	–
Acquisition of Tech Praise Group (note 36(c))	**82,097**	–
Measurement period adjustment (note)	**(40,000)**	–
Exchange adjustment	**13,396**	89,003
	1,304,466	1,129,430
Accumulated impairment losses		
Impairment losses recognised in the year	**(7,663)**	–
At 31 December	**1,296,803**	1,129,430

Note:

Balance represents adjustment to the cash consideration for acquisition of Yu Hong Group as mentioned below in note 36(a). It was treated as adjustment to the cost of business combination and recognised as part of goodwill.

Goodwill is allocated to the cash generating units ("CGU") identified as follows:

	2012 HK$'000	2011 HK$'000
Eagle Mascot Group and Jiangsu Hongxin (note a)	**1,140,368**	1,129,430
Yu Hong Group (note b)	**72,903**	–
Tech Praise Group (note c)	**83,532**	–
At 31 December	**1,296,803**	1,129,430

19. GOODWILL (Continued)

Note:

(a) Eagle Mascot Group and Jiangsu Hongxin

The amount represents goodwill arising on the acquisition of interest in Eagle Mascot Group and Jiangsu Hongxin Intelligence Co., Ltd., which was completed in October 2009.

The recoverable amount has been determined based on a value in use calculation with reference to assessment made by independent professional valuer, Assets Appraisal Limited (the "Assets Appraisal"). Valuation of the goodwill using cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 15.2% (2011: 17.0%) per annum. The discount rate is determined based on the risk free interest rate adjusted by the specific risk associated with the CGU. The cash flows beyond the one-year period are extrapolated using the steady growth rate of 3% (2011: 3%), which does not exceed the average growth rate of the ISD system industry. Budgeted gross margin of approximately 92% (2011: 80%) is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

(b) Yu Hong Group

The amount represents goodwill arising on the acquisition of interest in Yu Hong Group, which was completed on 1 April 2012.

The recoverable amount has been determined based on a value in use calculation with reference to assessment made by Assets Appraisal. Valuation of the goodwill using cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 19.2% per annum. The discount rate is determined based on the risk free interest rate adjusted by the specific risk associated with the CGU. The cash flows beyond the one-year period are extrapolated using the steady growth rate of 2%, which does not exceed the average growth rate of the ISS industry. Budgeted gross margin of approximately 41% is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

According to the Management's assessment, the budgeted sales forecast was adjusted to reflect current operating performance and estimated that the value in use balance as at 31 December 2012 was less than the carry amount of Yu Hong Group by approximately HK$7,663,000. There is a provision for impairment loss on goodwill of approximately HK$7,663,000 recognised for the year ended 31 December 2012. The value in use calculation has been made reference to assessment made by the Assets Appraisal.

(c) Tech Praise Group

The amount represents goodwill arising on the acquisition of interest in Tech Praise Group, which was completed on 17 August 2012.The recoverable amount has been determined based on a value in use calculation with reference to assessment made by Assets Appraisal. Valuation of the goodwill using cash flow projections based on financial budgets approved by management covering a three-year period, and a discount rate of 19.0% per annum. The discount rate is determined based on the risk free interest rate adjusted by the specific risk associated with the CGU. The cash flows beyond the three-year period are extrapolated using the steady growth rate of 3%, which does not exceed the average growth rate of the ISD system industry. Budgeted gross margin of approximately 81% is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

20. OTHER INTANGIBLE ASSETS

Group	Patents and trademark HK$'000	Technology HK$'000	Service Contracts HK$'000	Customer base HK$'000	Unfinished contracts HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2011	–	122,911	–	21,613	13,203	157,727
Currency realignment	–	278	–	–	–	278
At 31 December 2011	–	123,189	–	21,613	13,203	158,005
Acquired through business combinations (note a and c)	215,933	–	270,959	–	–	486,892
Addition (note b)	117,937	21,997	–	–	–	139,934
Currency realignment	1,846	310	4,734	–	–	6,890
At 31 December 2012	335,716	145,496	275,693	21,613	13,203	791,721
Amortisation						
At 1 January 2011	–	28,185	–	4,953	9,257	42,395
Amortisation charge for the year	–	23,616	–	4,156	3,946	31,718
Currency realignment	–	170	–	–	–	170
At 31 December 2011	–	51,971	–	9,109	13,203	74,283
Amortisation charge for the year	26,364	23,998	10,765	4,156	–	65,283
Currency realignment	211	52	122	–	–	385
At 31 December 2012	26,575	76,021	10,887	13,265	13,203	139,951
Net book value						
At 31 December 2012	309,141	69,475	264,806	8,348	–	651,770
At 31 December 2011	–	71,218	–	12,504	–	83,722

Note:

During the year, the Group acquired intangible assets mainly resulted from (a) Yu Hong Acquisition; (b) Anxin Mate Acquisition; and (c) Tech Praise Acquisition as detailed below.

(a) Yu Hong Acquisition

As set out in note 36(a), the Group acquired the surveillance cameras and CCTV products business of Yu Hong Group during the year, including the acquisition of patents with fair value of approximately HK$215,933,000 on the date of acquisition. The patents identified from the acquisition have estimated useful life of approximately 9 years.

20. OTHER INTANGIBLE ASSETS (Continued)

Note: (Continued)

(b) Anxin Mate Acquisition

As set out in note 36(b), the Group acquired various patents and relevant trademark in relation to behavior watch technologies (the "Behaviour Watch Assets") amounted to approximately HK$116,708,000 through the acquisition of subsidiary, Anxin Mate Holdings Limited ("Anxin Mate"). The patents and trademark have estimated useful life of 10 years. The Group engaged a professional appraiser, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional qualified valuer, to conduct valuation of these intangible assets. As the economic benefits arising from the Behaviour Watch Assets are totally integrated with the existing operating segments of the Group, the "Incremental Cash Flow Approach" has been applied to derive the incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets. Under this approach, the incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets were estimated by considering the net impact on the Group's cash flow by generating two different scenarios, namely: (1) the business enterprise value of the Group under a scenario "WITH Behaviour Watch Assets"; and (2) the business enterprise value of the Group under a scenario "WITHOUT the Behaviour Watch Assets". The incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets is derived from the difference of the business enterprise values between the two scenarios aforementioned.

(c) Tech Praise Acquisition

As set out in note 36(c), the Group acquired the business of Tech Praise Group during the year, including the acquisition of service contracts with fair value of approximately HK$270,959,000 on the date of acquisition. The service contracts identified from the acquisition has estimated useful life of approximately 9 years. Service contract mainly represented contracts for performing system solution service through the surveillance points installed in Jilin Province.

21. INVENTORIES

Group	**2012** **HK$'000**	2011 HK$'000
Raw materials	**9,469**	1,030
Work in progress	**554**	413
Finished goods	**9,330**	9,355
	19,353	10,798

22. TRADE AND OTHER RECEIVABLES

	2012		2011	
	HK$'000	**HK$'000**	HK$'000	HK$'000
	Group	**Company**	Group	Company
Trade receivables	**363,161**	**–**	207,427	–
Other receivables	**2,454**	**7**	11,709	–
Amount due from a related party	**599**	**–**	–	–
Amounts due from directors (note 23)	**620**	**–**	495	–
Amounts due from subsidiaries	**–**	**1,591,256**	–	1,704,143
Rental and utility deposits	**3,147**	**2,605**	2,700	2,700
Advance to suppliers	**8,275**	**–**	13,137	–
	378,256	**1,593,868**	235,468	1,706,843

The amounts due from a related party, directors, and subsidiaries are unsecured, interest free and repayable on demand.

Other receivables are assessed to be impaired individually based on the indication of financial difficulties and default in payments at each reporting date and no impairment losses was recognised during the years ended 31 December 2012 and 2011. The Group does not hold any collateral over these balances. Other receivables, deposits and prepayments are interest free.

In general, the credit terms granted by the Group ranged from 90 to 180 days, while the retention monies held in relation to the sales of application software are receivable 12 months after installation of software. The following is an aged analysis of trade receivables net of allowance for impairment losses presented based on the invoice date at the end of reporting period.

	2012	2011
Group	**HK$'000**	HK$'000
Aged:		
Within 30 days	**137,144**	8,277
31 – 60 days	**141,549**	87,829
61 – 90 days	**6,388**	49,220
91 – 180 days	**4,587**	3,946
181 – 365 days	**73,476**	58,155
More than 365 days	**17**	–
	363,161	207,427

22. TRADE AND OTHER RECEIVABLES (Continued)

Of the trade receivables balance at the end of the year, HK$94,178,000 (31 December 2011: HK$67,174,000) is due from the Group's largest customer. There are another eight customers (31 December 2011: seven customers) who represent more than 5% of the total balance of trade receivables. These customers are with no history of default in the past.

The below table reconciled the impairment loss of trade receivables for the year:

Group	2012 HK$'000	2011 HK$'000
At 1 January	**23,493**	–
Recovery of impairment loss recognised (note a)	**(23,493)**	–
Provision for impairment loss recognised	**–**	23,493
At 31 December	**–**	23,493

Trade receivables (net of impairment losses) with the following aging analysis using allowed credit term as of the end of the reporting period:

Group	2012 HK$'000	2011 HK$'000
Current (note b)	**247,933**	200,221
Less than 30 days past due	**72,075**	–
31 – 90 days past due	**16,916**	7,196
91 – 120 days past due	**26,237**	10
Amount past due but not impaired at the end of reporting period (note c)	**115,228**	7,206
	363,161	207,427

22. TRADE AND OTHER RECEIVABLES (Continued)

Note:

(a) In 2011, a subsidiary of the Company, Jiangsu Hongxin, provided an impairment loss on a receivable from a customer as the management assessed that the balance of approximately HK$23,493,000 was probably uncollectible due to the occasional electricity breakdown of ISD system managed. However, the problem was solved in 2012, and the balance has been settled by the customer. As a result, the provision for impairment loss recognised in 2011 was reversed.

(b) The balances that were neither past due nor impaired relate to customers for whom there was no recent history of default.

(c) At each reporting date, the Group's trade receivables were individually and collectively determined for impairment purposes. The individually impaired receivables are recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. Consequently, specific impairment provision of HK$23,493,000 was recognised as at 31 December 2011. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The balances of approximately HK$115,228,000 were past due but not impaired related to balances where there has not been a significant change in credit quality and the amounts are still considered recoverable.

23. ADVANCES TO OFFICERS

Details of advances to officers of the Group disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Advances to officers by the Group

Name of borrower	Mr. Yang Ma, director	Mr. Liu Zhongkui, director	Mr. Wang Bo, director	Total
Balance of the relevant advances				
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2012	–	17	603	620
At 1 January 2012	495	–	–	495
Maximum balance outstanding during the year	544	23	603	1,170

The above advances are unsecured, interest free and repayable on demand.

24. CASH AND CASH EQUIVALENTS

(a) Included in bank and cash balances of the Group and the Company are HK$1,574,735,000 and HK$31,257,000 (2011: HK$1,066,106,000 and HK$Nil), respectively, of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group and the Company are permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

(b) Restricted bank deposits

The balances as at 31 December 2012 comprised balance of approximately RMB13,500,000 (equivalent to HK$16,792,000) (2011:Nil) and HK$1,708,000 (2011:Nil) which were designated and could only be applied in the establishment of new subsidiary in the PRC and dividend payment respectively.

(c) Major non-cash transactions

	2012	2011
	HK$'000	HK$000
Investing activities		
Equity consideration for acquisition of assets	**59,653**	–
Equity consideration for business combination	**337,170**	–
	396,823	–

25. TRADE AND OTHER PAYABLES

	2012		2011	
	HK$'000	**HK$'000**	HK$'000	HK$'000
	Group	**Company**	Group	Company
Trade payables	**22,900**	**–**	8,714	–
Cash consideration (note a)	**96,700**	**96,700**	–	–
Other payables and accruals	**19,666**	**2,972**	38,702	1,199
Other tax payables	**13,568**	**–**	40	–
Amounts due to related parties (note b)	**3,870**	**–**	2,076	–
Advance from customers	**7,092**	**–**	250	–
	163,796	**99,672**	49,782	1,199

Note:

(a) As set out in note 36(a), as part of the consideration of the Yu Hong Acquisition, the balance represented deferred cash consideration which together with the promissory note consideration (note 27) are subject to contingent consideration adjustments.

(b) The amounts due to related parties are unsecured, interest free and repayable on demand.

In general, the credit terms granted by suppliers ranged from 90 to 180 days. The aging analysis of trade payables prepared based on invoice date is as follows:

	2012	2011
Group	**HK$'000**	HK$000
Aged:		
Within 30 days	**8,308**	917
31 – 60 days	**2,150**	–
61 – 90 days	**1,904**	–
91 – 180 days	**937**	7,323
181 – 365 days	**1,087**	–
More than 365 days	**8,514**	474
	22,900	8,714

26. CONTINGENT CONSIDERATION SHARES

	2012		2011	
	HK$'000	**HK$'000**	HK$'000	HK$'000
	Group	**Company**	Group	Company
Fair value of contingent consideration shares for Tech Praise Acquisition (note)	**270,142**	**270,142**	–	–

Note:

As set out in note 36(c), as part of the consideration for the acquisition of Tech Praise Group, the Company was required to issue 203,114,421 new shares based on five tranches of consideration shares. Consideration shares of 60,934,326 for 1st and 2nd tranche of shares were issued during the year ended 31 December 2012 and were re-measured to fair value at the date of its issuance. The remaining 142,180,095 shares, which were subject to adjustment principally based on Tech Praise Group's profits for the years ended 31 December 2012 and 2013 (detail refer to note 36(c)), were still classified as financial liabilities in the consolidated statement of financial position and re-measured to fair value at the end of the reporting period. A total fair value loss of approximately HK$33,209,000 was recognised in profit and loss accordingly.

27. PROMISSORY NOTE

	2012		2011	
	HK$'000	**HK$'000**	HK$'000	HK$'000
	Group	**Company**	Group	Company
Fair value at date of issue (note a)	**173,822**	**173,822**	–	–
Compensation gain arising from profit guarantee (note b)	**(101,490)**	**(101,490)**	–	–
Imputed interest recognised during the year	**6,326**	**6,326**	–	–
Carrying amount at the end of the year	**78,658**	**78,658**	–	–

Note:

(a) As set out in note 36(a), the Company issued a zero-coupon promissory note in the principal amount of HK$189,000,000 (the "Promissory Note") as part of the consideration for the acquisition of the entire equity of Yu Hong Group. The Promissory Note has a two-year maturity terms and the Company has the right to redeem the Promissory Note by giving not less than 7 days prior written notice to the holder of Promissory Note while the holder of the Promissory Note has the right to transfer the outstanding balance of Promissory Note respectively before the maturity terms.

The fair value of the Promissory Note was determined at approximately HK$173,822,000 issued at acquisition date, based on an independent valuation carried out by Asset Appraisal. The effective interest rate of the Promissory Note was determined to be 4.77% per annum. The Promissory Note was classified as non-current liabilities and carried at amortised cost until extinguished on redemption.

27. PROMISSORY NOTE (Continued)

Note: (Continued)

(b) Pursuant to the profit guarantee arrangement as disclosed in note 36(a), the Company is entitled to recover the Promissory Note as the profit for the year ended 31 December 2012 is less than the 2012 Profit Guarantee (as defined in note 36(a)). The Company assessed that the 2012 Profit Guarantee was partially met and compensation gain of approximately HK$101,490,000 to be recovered through the reduction of Promissory Note.

28. DEFERRED TAX

Details of the deferred tax assets and liabilities recognised and movements during the current and prior years:

Group	**Intangible assets**	**Provision of impairment loss on property, plant and equipment**	**Provision of impairment loss on trade receivables**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	(17,689)	–	–	(17,689)
Credit to profit or loss for the year	5,760	2,285	2,937	10,982
Exchange differences	–	50	66	116
At 31 December 2011 and 1 January 2012	(11,929)	2,335	3,003	(6,591)
Credit/(charge) to profit or loss for the year	13,502	(690)	(2,997)	9,815
Acquisitions of subsidiaries during the year	(100,974)	–	–	(100,974)
Exchange differences	(1,169)	14	(6)	(1,161)
At 31 December 2012	**(100,570)**	**1,659**	**–**	**(98,911)**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$1,446,552,000 (2011: HK$761,636,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

Authorised, issued and fully paid

	2012 Number '000	**2012 HK$'000**	2011 Number '000	2011 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At beginning of year	**2,680,873**	**268,087**	2,079,746	207,975
Issue of shares on conversion of convertible notes (note a)	**–**	**–**	432,307	43,230
Issue of shares on exercise of warrants (note b)	**15,000**	**1,500**	75,000	7,500
Issue of shares on exercise of share options (note c)	**37,000**	**3,700**	–	–
Purchase of own shares for cancellation (note d)	**–**	**–**	(46,280)	(4,628)
Placing of new shares (note e)	**–**	**–**	140,100	14,010
Issue of new shares (note f)	**93,288**	**9,329**	–	–
At end of the year	**2,826,161**	**282,616**	2,680,873	268,087

Note:

(a) On 19 May 2011, 23 November 2011 and 5 December 2011, the convertible notes in an aggregate principal amount of HK$200,000,000, HK$41,000,000 and HK$40,000,000 were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 432,307,000 new shares were issued. All the convertible notes were converted during the year ended 31 December 2011.

(b) On 28 October 2010, the Company entered into the warrant placing agreement with an independent placing agent (the "Placing Agent"), whereby the Company appointed the Placing Agent as the sole and exclusive placing agent to procure not less than six placees to subscribe for up to 100,000,000 unlisted warrants (the "Warrants"), on the best effort basis, at the warrant issue price of HK$0.01 per Warrant. The net proceed from issue of warrants amounted to HK$872,000.

29. SHARE CAPITAL (Continued)

Authorised, issued and fully paid (Continued)

Note: (Continued)

(b) (Continued)

The Warrants entitle the placees to subscribe for a maximum of 100,000,000 new shares at an initial subscription price of HK$1.22 per new share (subject to adjustment) for a period of 24 months commencing from (and inclusive of) the date of issue of the Warrants. Each Warrant initially carries the right to subscribe for one new share.

During the years ended 31 December 2011 and 2012, 75,000,000 and 15,000,000 warrants were exercised, respectively, at a subscription price of HK$1.22 per share, resulting in the issue of 75,000,000 and 15,000,000 ordinary shares of HK$0.1 each. All the warrants were exercised during the year ended 31 December 2012.

(c) On 16 April 2012, a total of 158,820,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to the grantees (the "Grantees"), subject to acceptance by the Grantees, under the share option scheme adopted by the Company on 3 November 2003.

On 18 June 2012 and 3 December 2012, a total of 19,000,000 and 18,000,000 share options were exercised at a subscription price of HK$1.5 per share, resulting in the issue of 37,000,000 ordinary shares of HK$0.1 each.

(d) Pursuant to the repurchase mandate granted to the directors at the annual general meeting of the Company held on 3 June 2011 (the "Repurchase Mandate"), the directors are allowed to repurchase shares in the Company not exceeding 10% of the issued share capital of the Company. Up to 31 December 2012, the Company has repurchased a total of 46,280,000 of its own shares pursuant to the Repurchase Mandate. There is no repurchase of shares during the year ended 31 December 2012.

(e) On 6 January 2011, the Vendor (a shareholder of the Company) and the Company entered into the Subscription and Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has agreed, on a best effort basis, to procure at least six investors to purchase, and the Vendor has agreed to sell, up to 150,000,000 existing shares at a price of HK$2.30 per Placing Share. Subject to the completion of the Placing, the Vendor agrees to subscribe for and the Company agrees to allot and issue to the Vendor up to 150,000,000 new shares which is equal to the number of Placing Shares at a price of HK$2.30 per Subscription Share.

29. SHARE CAPITAL (Continued)

Authorised, issued and fully paid (Continued)

Note: (Continued)

(e) (Continued)

The placing and the subscription took place on 20 January 2011. A total of 140,100,000 Placing Shares have been successfully placed to not less than six independent investors at the Placing Price of HK$2.30 per Placing Share, and a total of 140,100,000 Subscription Shares of HK$0.1 each have been allotted and issued to the Vendor by the Company at the Subscription Price.

(f) On 4 May 2012, a total of 32,353,756 shares were issued, according to the Agreement for the acquisition of Anxin Mate (note36(b)).

On 9 August 2012 and 21 November 2012, a total of 60,934,326 shares as Consideration Shares were issued for the acquisition of Tech Praise Group (note 36(c)).

Capital management policy

The Group's objectives when managing capital are to safeguard the group entities' ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made to the objectives or policies during the year.

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

The Group monitors capital with reference to its assets position. The Group's strategy is to maintain a solid base to support the operations and development of its business in the long term. The Group's equity attributable to equity shareholders over its total assets, as at 31 December 2012 was 83.5% (2011: 97.1%).

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirement.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Nature and purpose of the share premium, warrant reserve, convertible notes equity reserve, capital reserve, share-based payment reserve, share option reserve, proposed final dividend and accumulated losses are explained in note (b) below.

(b) Company

The Company	Share premium (note i) HK$'000	Warrant reserve (note ii) HK$'000	Convertible notes equity reserve (note iii) HK$'000	Capital reserve (note iv) HK$'000	Share-based payment reserve (note v) HK$'000	Share option reserve (note vi) HK$'000	Proposed final dividend (note vii) HK$'000	Accumulated losses (note viii) HK$'000	Total HK$'000
At 1 January 2011	997,751	25,172	121,838	14,911	–	–	–	(134,242)	1,025,430
Issue of shares on conversion of convertible notes	274,019	–	(121,838)	–	–	–	–	–	152,181
Issue of shares upon exercise of warrants	84,641	(25,041)	–	–	–	–	–	–	59,600
Issue of new shares	296,942	–	–	–	–	–	–	–	296,942
Purchase of own shares for cancellation	(56,404)	–	–	–	–	–	–	–	(56,404)
Shares-based payment expenses	–	–	–	–	–	25,289	–	–	25,289
Proposed final dividend	(80,426)	–	–	–	–	–	80,426	–	–
Loss for the year	–	–	–	–	–	–	–	(53,796)	(53,796)
At 31 December 2011 and 1 January 2012	1,516,523	131	–	14,911	–	25,289	80,426	(188,038)	1,449,242
Issue of shares upon exercise of warrants	16,931	(131)	–	–	–	–	–	–	16,800
Issue of shares upon exercise of share options	72,628	–	–	–	–	(20,828)	–	–	51,800
Issue of new shares	150,561	–	–	–	–	–	–	–	150,561
Shares-based payment expenses	–	–	–	–	–	70,392	–	–	70,392
Equity-settled share-based payment expenses	–	–	–	–	28,795	–	–	–	28,795
Distribution of 2011 final dividend	(970)	–	–	–	–	–	(80,426)	–	(81,396)
Proposed final dividend	(101,827)	–	–	–	–	–	101,827	–	–
Loss for the year	–	–	–	–	–	–	–	(93,342)	(93,342)
At 31 December 2012	1,653,846	–	–	14,911	28,795	74,853	101,827	(281,380)	1,592,852

Note:

(i) Share Premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

30. RESERVES (Continued)

(b) Company (Continued)

Note: (Continued)

(ii) Warrant reserve

Warrant reserve is non-distributable and will be transferred to share premium account upon the exercise of warrants. Balance of warrant reserve in relation to the unexercised warrants at the expiry of the exercise period of the warrants will be transferred to retained profits.

(iii) Convertible notes equity reserve

Convertible notes equity reserve records the equity portion of the convertible notes issued on 22 October 2009.

(iv) Capital reserve

Capital reserve represents the waiver of an amount due to a shareholder of the Company.

(v) Share-based payment reserve

Share-based payment reserve is used to record the value of equity benefits to be paid to vendor for the services rendered in next three years as described in note 33.

(vi) Share option reserve

Share option reserve is used to record the value of equity benefits provided to employees and consultants as part of their remuneration as described in note 33.

(vii) Proposed final dividend

The reserve represents a final dividend proposed by the directors as described in note 31.

(viii) Accumulated losses

Accumulated losses represent cumulative net gains and losses recognised in profit or loss.

30. RESERVES (Continued)

(c) Other comprehensive income

	2012 HK$'000	2011 HK$'000
Other comprehensive income includes:		
Exchange differences arising on translating foreign operations	**37,354**	125,717
Other comprehensive income	**37,354**	125,717

31. DIVIDENDS

At the Company's board meeting held on 18 March 2013, the directors recommended a final dividend of HK3.6 cents (2011: HK3 cents) per ordinary share. The proposed dividend of HK$101,827,000 is calculated on the basis of 2,828,516,924 shares in issue at the date of this report. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting and not reflected as a dividend payable in these financial statements. It will be reflected as an appropriation of share premium for the year ended 31 December 2012.

32. LEASES

Operating leases as lessee

The Group leases the majority of its office properties. The terms of property leases are subject to rental reviews every 1 to 2 years and many have break clauses.

The lease payments recognised as an expense are as follows:

	2012 HK$'000	2011 HK$'000
Minimum leases payments	**9,325**	7,268

32. LEASES (Continued)

The total future minimum lease payments are due as follows:

	2012 **HK$'000**	2011 HK$'000
Not later than one year	**2,322**	6,755
Later than one year and not later than five years	**13**	796
	2,335	7,551

Operating leases as lessor

The minimum rental receivables under non-cancellable operating leases are as follows:

	2012 **HK$'000**	2011 HK$'000
Not later than one year	**1,461**	–
Later than one year and not later than five years	**–**	–
	1,461	–

33. SHARE-BASED PAYMENT

(a) Share options

The Company operates an equity-settled share based remuneration scheme pursuant to a resolution passed on 3 November 2003 for the primary purpose of providing incentives to selected participants, and will expire on 2 November 2013. Under the Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible participants:

(i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries and any entity ("Invested Entity") in which any member of the Group holds any equity interest;

(ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries and any Invested Entity;

33. SHARE-BASED PAYMENT (Continued)

(a) Share options (Continued)

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

33. SHARE-BASED PAYMENT (Continued)

(a) Share options (Continued)

On 16 April 2012, the Company granted 158,820,000 share options (2011: 37,000,000). Details and movements of share options are as follows:

	Weighted average exercise price	Number
		HK$'000
At 1 January 2011	–	–
Granted during the year	HK$2.25	37,000
At 31 December 2011	HK$2.25	37,000
Granted during the year	HK$1.50	158,820
Exercised during the year	HK$1.50	(37,000)
At 31 December 2012	HK$1.67	158,820
Exercisable at the end of the year	HK$1.72	125,046

The weighted average exercise price of options outstanding at the end of the year is HK$1.67 (2011: HK$2.25) and their weighted average remaining contractual life was 1.94 years (2011: 1.8 years). The validity period of the share options of the Company granted during the year is from 16 April 2012 to 15 April 2015 (2011: from 1 April 2011 to 2 November 2013).

The weighted average share price at the date of exercise of options exercised during the year was HK$1.53.

The weighted average fair value of each option granted during the year amounted to HK$0.57 (2011: HK$0.68) determined at the date of grant using the Binomial option pricing model was with reference to assessment by Assets Appraisal.

33. SHARE-BASED PAYMENT (Continued)

(a) Share options (Continued)

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration schemes operated by the Group.

	2012	2011
Option pricing model used	**Binomial option pricing model**	Binomial option pricing model
Weighted average share price at grant date	**HK$1.49**	HK$2.25
Grant date	**16 April 2012**	1 April 2011
Exercise price	**HK$1.5**	HK$2.25
Weighted average contractual life	**2.79 years**	2.6 years
Expected volatility	**71.89%**	47.08%
Expected dividend yield	**2.01%**	0%
Risk free interest rate	**0.33%**	0.96%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of weekly share prices over the last 156 weeks.

The expected dividend yield is calculated based on the historical dividend payout records of the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share option reserve. Balance of approximately HK$70,392,000 (2011: HK$25,289,000) was recognised in profit or loss for the year ended 31 December 2012.

33. SHARE-BASED PAYMENT (Continued)

(b) Equity settled share-based payment

On 17 March 2012, the Group entered into a Services Agreement with a consulting company whereby the consulting company agreed to provide services to the Group within three years for the purpose of assisting the Group in expanding and developing markets for ISD platforms in three cities in the PRC, and each of such cities shall install at least 1,000 surveillance points ("the Services"). The consideration for the Services, being US$15,000,000 (equivalent to HK$116,435,000), shall be satisfied by the Company's allotment and issuance of three tranches of Consideration Shares of 21,569,171 shares each.

Pursuant to HKFRS 2, the fair value of the services should be measured by reference to the share price at date of grant amounted to approximately HK$115,179,000, which are to be recognised in profit and loss throughout the service vesting period. Balance of approximately HK$28,795,000 was recognised in profit or loss for the year ended 31 December 2012.

34. INVESTMENTS IN SUBSIDIARIES

Company	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**694,256**	1

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

34. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and operation	Issued and paid up shares/ registered capital	Percentage of ownership interest attributable to the Company		Principal activities
				Directly	Indirectly	
Hover Rise Limited	Corporation	The British Virgin Islands ("BVI")	US$50,000	100%	–	Investment holding
Eagle Mascot Limited	Corporation	BVI	US$50,000	–	100%	Investment holding
Eagle Champion Holdings Limited	Corporation	Hong Kong	HK$10,000	–	100%	Investment holding
Anxin Mate Holdings Limited (note 36(b))	Corporation	BVI	US$50,000	100%	–	Leasing of software systems
Yu Hong Investments Limited (note 36(a))	Corporation	BVI	US$150	100%	–	Investment holding
Island Wide Investments Limited (note 36(a))	Corporation	Hong Kong	HK$1,000	–	100%	Investment holding
Tech Praise Limited (note 36(c))	Corporation	BVI	US$1	100%	–	Investment holding
Win Technology Investment Co., Limited (note 36(c))	Corporation	Hong Kong	HK$1	–	100%	Investment holding
Ease Sum Holdings Limited	Corporation	BVI	US$1	100%	–	Investment holding
Ease Sum (HK) Holdings	Corporation	Hong Kong	HK$1	–	100%	Investment holding
Long Virtue Holdings Limited	Corporation	BVI	US$1	100%	–	Investment holding
Long Virtue (HK) Holdings Limited	Corporation	Hong Kong	HK$1	–	100%	Investment holding
Shenzhen Anxin Digital Development Co., Ltd.	Corporation	The PRC	RMB175,000,000	–	100%	Production of system hardware and application software, and provision of system solutions according to client's need and provision of long term agency operation and maintenance services on system solutions

34. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Form of business structure	Place of incorporation/ registration and operation	Issued and paid up shares/ registered capital	Percentage of ownership interest attributable to the Company		Principal activities
				Directly	Indirectly	
Jiangsu Hongxin Intelligence Technology Co., Ltd.	Corporation	The PRC	RMB15,000,000	–	100%	Production of intelligent product and provision of consultancy services on intelligent system
Shenzhen Anke Safety Production Information Services Co., Ltd.	Corporation	The PRC	RMB5,000,000	–	100%	Development on enterprise safety technology and provision of consultancy service for enterprises safety technology
Shenzhen Hawell Advanced Technology Co., Ltd. (note 36(a))	Corporation	The PRC	RMB10,000,000	–	100%	Design, development, production and distribution of security and protection products and CCTV products including DVR cards, DVR, CCD camera and relevant accessories for CCTV system
Jilin Province Yingke Information Technology Co., Ltd. (note 36(c))	Corporation	The PRC	US$820,000	–	100%	Sale of system hardware and application software for installation of ISD Systems and provision of system solutions services
Shenzhen Xinye Intelligence Technology Co., Ltd. ("Shenzhen Xinye")	Corporation	The PRC	RMB10,000,000	–	100%	Production of system hardware and application software, and provision of system solutions according to client's need and provision of long term agency operation and maintenance services on system solutions
Jilin Anxing information Technology Co., Ltd. ("Jilin Anxing")	Corporation	The PRC	RMB500,000	–	100%	Development of software system and application software for installation of ISD Systems and provision of system solutions services and Sale of system hardware

None of the subsidiaries had any debt securities subsisting at the end of year or at any time during the year.

35. RELATED PARTY TRANSACTIONS

Key management is the directors of the Company and details of directors' remuneration are given in note 13 to the financial statements. Other significant related party transactions during the year are as follows:

Related party relationship	Types of transaction	Transaction amount 2012 HK$'000	2011 HK$'000
Related parties (note (a))	Rental income	**591**	1,446
	Rental expenses	**1,476**	–
	Purchase of property, plant and equipment	**–**	98,789
	Consultancy expenses (note (b))	**448**	–

(a) Related parties represent Chen Hong, who is one of the major shareholders of the Company and the companies controlled by him.

(b) The above expense was compensated based on equity-settled share based remuneration scheme as set out in note 33(a).

(c) The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any commitment or guarantee been given or received during 2012 and 2011 regarding related party transactions.

36. ACQUISITIONS DURING THE YEAR

(a) On 14 November 2011, the Group entered an agreement (the "Original Agreement") for the acquisition of Yu Hong Group, together with the loan of HK$13,005,000 due to its shareholder, at an aggregate consideration of HK$315,000,000, of which HK$126,000,000 shall be satisfied by cash and the balance of HK$189,000,000 by way of promissory note issued by the Company. The promissory note is subject to Yu Hong Group's profit guarantee for the year ended 31 December 2012 of HK$90,000,000 (the "2012 Profit Guarantee") (details are set out in the Company's announcement dated 15 November 2011).

Yu Hong Investments Limited is a company incorporated in the British Virgin Islands, which holds Island Wide Investments Limited and Shenzhen Hawell incorporated in Hong Kong and the PRC respectively. Shenzhen Hawell's principal activity is the design, development, production and distribution of security and protection products and CCTV products. The purpose of the acquisition is to broaden revenue base and provide synergy effect of current ISD systems operation.

36. ACQUISITIONS DURING THE YEAR (Continued)

(a) (Continued)

The fair value of separate identifiable assets and liabilities of the acquiree, excluding the shareholder's loan of HK$13,005,000, as at the date of acquisition was:

	HK$'000	HK$'000
Property, plant and equipment	754	
Patents	215,933	
Inventories	23,084	
Trade and other receivables (note i)	12,187	
Cash	2,770	
Trade and other payables	(20,466)	
Deferred tax liabilities recognised upon fair value adjustments	(53,983)	
		180,279
The provisional fair value of consideration transfer:		
Cash paid	29,300	
Contingent consideration:		
Cash consideration (note 25)	96,700	
Promissory note (note 27)	173,822	
		299,822
Goodwill (note ii and note 19)		119,543

Note:

(i) The fair value of trade and other receivables amounted to HK$12,187,000. The gross amount of these receivables is HK$12,187,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

(ii) The goodwill of HK$119,543,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing ISD system operations of the Group.

36. ACQUISITIONS DURING THE YEAR (Continued)

(a) (Continued)

On 10 January 2012, a supplemental agreement (the "First Supplemental Agreement") was entered pursuant to which the cash portion of the consideration for the Acquisition ("Cash Consideration") in the sum of HK$126,000,000 shall be paid by the Company to the Vendor by three installments and is subject to certain conditions (details are set out in the Company's announcement dated 10 January 2012):

- A sum of HK$29,300,000 be paid within 7 Business Days from the day of Completion of the Acquisition;
- A sum of HK$40,000,000 be paid within 1 month after it is determined that the Yu Hong Group's profits after tax but before extraordinary items for the year ended 31 December 2011 and for the three months ended 31 March 2012 is not less than HK$29,890,000 and HK$8,650,000, respectively; and
- The balance of the Cash Consideration in the sum of HK$56,700,000 shall be paid within 1 month after it is determined that the Yu Hong Group's profit for the six months ended 30 June 2012 is not less than HK$30,000,000.

The first payment of HK$29,300,000 was paid by the Company during the year ended 31 December 2012.

During the year ended 31 December 2012, the management of the Group determined that Yu Hong Group's profits did not fulfill the guaranteed profits for the year ended 31 December 2011 and for the three months ended 31 March 2012, which are circumstances before date of acquisition of 1 April 2012. The second cash payment of HK$40,000,000 was waived and represented as a measurement period adjustment and adjusted the fair value of the cash consideration transferred at the acquisition date and recognised as part of goodwill (note 19).

During the year ended 31 December 2012, the management of the Group also determined that Yu Hong Group's financial performance did not fulfill the guaranteed profits for the six months ended 30 June 2012, which was circumstance after date of acquisition of 1 April 2012. The third cash payment of HK$56,700,000 represented change in contingent consideration and the waiver of payment was recognised in profit or loss.

36. ACQUISITIONS DURING THE YEAR (Continued)

(a) (Continued)

On 17 August 2012, the Company entered into a second supplemental agreement (the "Second Supplemental Agreement") in relation to the restoring of the cash consideration of HK$96,700,000 waived in the First Supplemental Agreement (the "Remaining Cash Consideration"), pursuant to which the parties have agreed that (details are set out in the Company's announcement dated 17 August 2012):

- if the 2012 actual profit turns is not less than the 2012 Profit Guarantee as stated in the Original Agreement (i.e. HK$90,000,000), the Company shall, within one month after it is determined the 2012 Profit Guarantee was met, pay to the Vendor for the Remaining Cash Consideration; and

- if the 2012 actual profit turns is less than the 2012 Profit Guarantee, the 2012 compensation amount ((2012 Profit Guarantee – 2012 actual profit) x Price-to-earning ratio of 3.5 times) shall be deducted from the principal amount of the Promissory Note first and further shortfall shall be deducted from the Remaining Cash Consideration, instead of simply from the Promissory Note.

As a result of the entering of the Second Supplemental Agreement, the management assessed that the Remaining Cash Consideration and the Promissory Note will be adjusted based on the profit for the year ended 31 December 2012. This also represents a modification to the terms of the original liability. It should be taken into account in measuring the fair value of the contingent consideration liability at the reporting date. The restoring of Remaining Cash Consideration HK$96,700,000 was recognised in profit or loss.

During the year ended 31 December 2012, the management of the Group assessed that the profit for the year ended 31 December 2012 is less than 2012 Profit Guarantee. Compensation arising from profit guarantee arrangement was determined by management of the Group to be approximately HK$101,490,000 and was deducted from the promissory note (note 27).

During the year ended 31 December 2012, there was net compensation gain of approximately HK$61,490,000 of contingent consideration arising from Yu Hong Acquisition recognised in profit or loss.

36. ACQUISITIONS DURING THE YEAR (Continued)

(a) (Continued)

Since the acquisition date on 1 April 2012, Yu Hong Group has contributed HK$123,783,000 and HK$56,146,000 to the Group's revenue and profit for the year ended 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit would have been HK$149,483,000 and HK$60,997,000 respectively. The acquisition-related costs of HK$102,000 have been expensed and are included in administrative expenses.

(b) On 4 May 2012, the Company acquired 100% equity interests of Anxin Mate, as detailed in the Company's announcement dated 4 May 2012 (the "Anxin Mate Acquisition"). Based on the precedent condition in the acquisition agreement, the vendor, Mate Intelligent Video 2009 Limited, would transfer the Behaviour Watch Assets to the newly incorporated Anxin Mate. Upon the completion of the Anxin Mate Acquisition, the Group would have the right to utilise the Behaviour Watch Assets to enhance the functionality of the Group's ISD system monitoring process with the use of refined video analysis technique (Details refer to the Company's announcement dated 18 March 2012).

The fair values of identifiable assets of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Intangible Assets (note 20)		116,708
The fair value of consideration transfer:		
Cash	57,055	
32,353,756 Consideration Shares	59,653	116,708

Anxin Mate Acquisition does not meet the definition of a business, therefore, the above acquisition is deemed as acquisition of assets.

36. ACQUISITIONS DURING THE YEAR (Continued)

(c) Pursuant to the agreement dated 6 July 2012, the Group agreed to acquire the entire equity interest of Tech Praise Limited and its subsidiaries (collectively referred to "Tech Praise Group") ("Tech Praise Acquisition"), together with the loan amounting to HK$6,380,000 due from Tech Praise Limited to its shareholder (details are set out in the Company's announcement dated 6 July 2012).

The Acquisition was completed on 17 August 2012 involving an aggregate consideration of HK$300,000,000 to be satisfied by the issuance of 203,114,421 shares of the Company in five tranches ("Consideration Shares") in following manner:

(i) The 1st tranche, initially being HK$45,000,000 of Consideration Shares issued on the Completion Date, which is subject to the amount of net assets of Jilin Yingke being no less than HK$45,000,000;

(ii) The 2nd tranche, initially being the result of subtracting the 1st tranche from HK$90,000,000 of Consideration Shares. Further, it is also subject to the profit guarantee of HK$36,000,000 of Tech Praise Group for the nine months ended 30 September 2012;

(iii) The 3rd tranche, initially being HK$60,000,000 of Consideration Shares, which is subject to the profit guarantee of HK$60,000,000 of Tech Praise Group for the year ended 31 December 2012;

(iv) The 4th tranche, initially being HK$75,000,000 of Consideration Shares, which is subject to the profit guarantee of HK$39,000,000 of Tech Praise Group for the six months ending 30 June 2013; and

(v) The 5th tranche, initially being HK$75,000,000 of Consideration Shares, which is subject to the profit guarantee of HK$78,000,000 of Tech Praise Group for the year ending 31 December 2013.

36. ACQUISITIONS DURING THE YEAR (Continued)

(c) (Continued)

In case that the profit guarantees could not be met, the vendor shall indemnify the Company the Compensated Amount as calculated below:

For the 2012 profit guarantee stated in above points (ii) and (iii),
(2012 Profit Guarantee – 2012 Actual Profit) x Price-to-earnings ratio of 2.5 times

For the 2013 profit guarantee stated in above points (iv) and (v),
(2013 Profit Guarantee – 2013 Actual Profit) x Price-to-earnings ratio of 1.92 times

The directors of the Company are of the opinion that the 2012 and 2013 Profit Guarantee is achievable and no adjustment to the contingent consideration is considered necessary.

Tech Praise Limited is a company incorporated in the British Virgin Islands, which holds Win Technology Investments Co., Limited and Jilin YingKe incorporated in Hong Kong and the PRC respectively. Jilin Yingke's principal activity is engaged in design and development of remote surveillance information system, and provision of system technical services in the PRC. The purpose of the acquisition is to expand the Group's business in the PRC.

The Company has issued 1st and 2nd tranches of 30,467,163 and 30,467,163 shares on 9 August 2012 and 21 November 2012 respectively as a result of both conditions being met during the year ended 31 December 2012.

36. ACQUISITIONS DURING THE YEAR (Continued)

(c) (Continued)

The fair value of separate identifiable assets and liabilities of the acquiree, excluding the shareholder's loan of HK$6,380,000, as at the date of acquisition was:

	HK$'000	HK$'000
Property, plant and equipment	14,285	
Service contracts	270,959	
Inventories	132	
Trade and other receivables (note i)	24,565	
Cash	1,543	
Trade and other payables	(9,420)	
Deferred tax liabilities recognised upon fair value adjustments	(46,991)	
		255,073
The provisional fair value of consideration transfer:		
Contingent consideration:		
Consideration shares		337,170
Goodwill (note ii and note 19)		82,097

Note:

(i) The fair value of trade and other receivables amounted to HK$24,565,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

(ii) The goodwill of HK$82,097,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing ISD system operations of the Group.

Since the acquisition date on 17 August 2012, Tech Praise Group has contributed HK$54,626,000 and HK$43,431,000 to the Group's revenue and profit for the year ended 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit would have been HK$82,725,000 and HK$67,336,000 respectively. The acquisition-related costs of HK$182,000 have been expensed and are included in administrative expenses.

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following risks from its use of financial instruments:

- Market risks (Interest rate risk and foreign exchange risk)
- Liquidity risk
- Credit risk
- Equity price risk

Policies for managing these risks are set by the Board of Directors and implemented centrally by the management. The policy for each of the above risks is described in more detail below.

(a) Market risks

(i) Interest rate risk

The interest rate risk of the Group is mainly concentrated on the fluctuation of RMB arising from the bank deposits denominated in RMB. The Group policy is to keep its bank deposits at floating rate of interests so as to minimise the fair value interest rate risk. The directors consider the bank balances are within short maturity period and the effect on fluctuation in interest rates is insignificant.

(ii) Foreign exchange risk

Foreign exchange risk arises when group entities enter into transactions denominated in a currency other than their functional currencies. The management from time to time monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the significant financial assets denominated in foreign currency of RMB at the end of reporting period are HK$185,362,000 (2011: HK$284,539,000).

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

(ii) Foreign exchange risk (Continued)

Sensitivity analysis

The sensitivity analysis on foreign exchange risk includes financial assets that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. The following table indicates the approximate effect on the profit after income tax expense in the next accounting period in response to reasonably possible changes in an exchange rate to which the Group has significant exposure at the end of reporting period.

	2012 Effect on profit after income tax expense HK$'000	2011 Effect on profit after income tax expense HK$'000
RMB to HKD:		
– appreciates by 4% (2011: 4%)	**5,561**	8,650
– depreciates by 4% (2011: 4%)	**(5,561)**	(8,650)

(b) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of short-term fluctuation in cash flows. The management of the Group is responsible for maintaining a balance between continuity and flexibility of funding through the use of borrowings in order to meet the Group's liquidity requirements.

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The contractual maturities of financial liabilities are shown as below:

Group	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	HK$'000	HK$'000	HK$'000	HK$'000
2012				
Non-derivative financial liabilities				
Trade and other payables	163,796	163,796	163,796	–
Promissory note	78,658	87,510	–	87,510
	242,454	251,306	163,796	87,510
2011				
Non-derivative financial liabilities				
Trade and other payables	49,782	49,782	49,782	–

Company	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	HK$'000	HK$'000	HK$'000	HK$'000
2012				
Non-derivative financial liabilities				
Other payables	99,672	99,672	99,672	–
Promissory note	78,658	87,510	–	87,510
	178,330	187,182	99,672	87,510
2011				
Non-derivative financial liabilities				
Other payables	1,199	1,199	1,199	–

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(c) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from loans and receivables. The Group has adopted a credit policy to monitor and mitigate credit risk arising from trade receivables. Credit limit is regularly reviewed and approved by the Board. The Group assesses credit risk based on customer's past due record, trading history, financial condition or credit rating. During the year, the top five customers of the Group accounted for approximately 42% (2011: 70%) of the total turnover of the Group. The Group strives to diversify its business base to ensure that there are controls on the concentrations of credit risk.

(d) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own shares underlie the fair value of financial liabilities of the Group. At the end of the reporting period, the Group is exposed to this risk through the contingent consideration shares arising from the acquisition of Tech Praise Group as disclosed in note 36(c).

Sensitivity analysis

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value will fluctuate because of changes in the Company's own share price. If the share price had been 2% higher/lower, profit for the year would decrease/increase by HK$5,403,000.

38. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The directors considered that the carrying amounts of all financial assets and liabilities approximate their fair value.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities as defined in note 4(g):

Group	**2012** Carrying amount HK$'000	**2012** Fair value HK$'000	2011 Carrying amount HK$'000	2011 Fair value HK$'000
Financial assets				
Loans and receivables	**369,981**	**369,981**	235,468	235,468
Restricted bank deposits	**18,500**	**18,500**	–	–
Cash and cash equivalents	**1,580,697**	**1,580,697**	1,077,795	1,077,795
Financial liabilities				
Financial liabilities measured at amortised cost	**242,454**	**242,454**	49,782	49,782
Financial liabilities measured at fair value				
– Contingent consideration shares	**270,142**	**270,142**	–	–

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

Company	**2012** Carrying amount HK$'000	**2012** Fair value HK$'000	2011 Carrying amount HK$'000	2011 Fair value HK$'000
Financial assets				
Loans and receivables	**1,593,868**	**1,593,868**	1,706,843	1,706,843
Restricted bank deposits	**1,708**	**1,708**	–	–
Cash and cash equivalents	**32,947**	**32,947**	10,179	10,179
Financial liabilities				
Financial liabilities measured at amortised cost	**178,330**	**178,330**	1,199	1,199
Financial liabilities measured at fair value				
– Contingent consideration shares	**270,142**	**270,142**	–	–

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

Group and Company		**2012**		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial liabilities				
Financial liabilities measured at fair value				
– Contingent consideration shares	**–**	**–**	**270,142**	**270,142**

Group and Company		2011		
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities				
Financial liabilities measured at fair value				
– Contingent consideration shares	–	–	–	–

The following table shows the reconciliation of Level 3 fair value measurements of contingent consideration shares:

	2012	2011
	HK$'000	HK$'000
Group and Company		
At 1 January	**–**	–
Additions from acquisition of subsidiaries (notes 36(c))	**337,170**	–
Issue of consideration shares	**(100,237)**	–
Fair value changes on contingent consideration shares	**33,209**	–
At 31 December	**270,142**	–

Of the fair value changes on contingent consideration shares for the year included in profit or loss, HK$34,123,000 relates to contingent consideration shares held at the end of the reporting period (2011: HK$ Nil). Fair value changes on contingent consideration shares are included in "Other gains and losses".

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

The contingent consideration shares are measured at fair value based on the share price of the Company and are taken into consideration of whether the profit guarantee of Tech Praise Group is probable to be met (detail refer to note 36(c)). The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs (level 3). If the share price of the Company were 2% higher/lower while all the other variables were held constant, the fair value of the contingent consideration shares would be increased/decreased by approximately HK$5,403,000.

40. COMPARATIVE FIGURES

Equity-settled share-based payment expenses of approximately HK$25,289,000 incurred for sales and marketing purpose included in administrative expenses in prior year has been reclassified to selling and distribution costs to conform to current year's presentation.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2013.

Financial Summary

For the year ended 31 December

	For the year ended 31 December				
	2008 HK$'000	2009 HK$'000 (Restated)	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
RESULTS					
Turnover	422,321	126,923	336,807	598,172	**849,730**
Cost of sales	(312,307)	(72,194)	(74,569)	(61,689)	**(132,775)**
Gross profit	110,014	54,729	262,238	536,483	**716,955**
Other revenue	6,310	3,875	38,934	48,368	**97,278**
Other gains and (losses)	–	(504,351)	82,740	(22,315)	**46,049**
Selling and distribution costs	(51,797)	(26,371)	(21,367)	(65,452)	**(116,814)**
Administrative expenses	(32,460)	(74,934)	(40,593)	(31,028)	**(45,041)**
Research and development expenses	–	(1,280)	(13,934)	(51,462)	**(77,394)**
Finance costs	–	(17,882)	(50,651)	(12,346)	**(6,326)**
Profit (loss) before income tax expense	32,067	(566,214)	257,367	402,248	**614,707**
Income tax (expense)/credit	(8,534)	(3,931)	(12,458)	1,972	**(66,882)**
Profit (loss) for the year	23,533	(570,145)	244,909	404,220	**547,825**
Profit (loss) for the year attributable to					
Owners of the Company	23,533	(570,145)	244,909	404,220	**547,872**
Non-controlling interests	–	–	–	–	**(47)**
	23,533	(570,145)	244,909	404,220	**547,825**
Earnings (losses) per share					
Basic (HK cents)	5.07	(107.44)	16.44	16.37	**20.00**
Diluted (HK cents)	5.07	(107.44)	11.66	15.35	**19.89**

Note: The above income statements represent financial results from both continuing and discontinued operations.

	For the year ended 31 December				
	2008 HK$'000	2009 HK$'000 (Restated)	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	752,463	1,630,573	1,762,553	2,650,270	**4,082,089**
Total liabilities	(99,963)	(788,022)	(257,057)	(74,674)	**(672,227)**
	652,500	842,551	1,505,496	2,575,596	**3,409,862**
Equity attributable to owners of the Company	652,500	842,551	1,505,496	2,573,153	**3,409,862**
Non-controlling interests	–	–	–	2,443	**–**
	652,500	842,551	1,505,496	2,575,596	**3,409,862**